

Company Overview

Incorporated in 1964, Divgi TorqTransfer Systems Ltd. (DTTSL) is engaged in manufacturing and supplying transfer case systems, torque couplers, and providing DCT solutions to various segments of the automotive industry. The company has also focused on designing and developing prototypes of transmission systems for EVs and is in the process of launching domestically manufactured DCT systems for the Indian market. Moreover, DTTSL is the only player in the market that manufactures and exports transfer cases to global OEMs from India along with being the sole manufacturer of torque couplers in India. The company is in the list of a select few to serve both as a systems-level solution provider as well as a component kit supplier to global OEMs and Tier I transmission systems suppliers. The company's client base includes several marquee domestic and global OEMs in the automobile sector such as Tata Motors and Mahindra & Mahindra, and global suppliers such as BorgWarner. Presently, the company has three manufacturing and assembling facilities across India located at Sirsi in Karnataka, and Shivare and Bhosari near Pune in Maharashtra. On the global front, the company has expanded its services to automotive OEMs across key markets like the USA, China, Korea, Russia, etc.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

⇒ Funding capital expenditure requirements for the purchase of equipments/machineries of the company's manufacturing facilities.

⇒ General corporate purposes.

Investment Rationale

Tapping onto new opportunities with the growing EV space and passenger UVs segment

It is estimated that the market for EV transmission is expected to grow at a CAGR of 77-82% in the FY2022-27 period in both volume and value terms. To capitalize on this opportunity, the company intends to increase its market share in both the Indian and overseas markets by providing comprehensive transmission solutions and components to EV OEMs and acquiring new customers within this segment. Presently, the company has a contract for the supply of EV transmission systems for one of the leading providers of EVs in India. However, this has not materialized yet commercially. Another area of interest for the company is the UV segment in which its share in total PV production has risen to 35% from 20% earlier. Thus, with higher penetration of DCT in the compact UV and UV segments, the company stands to benefit as it is the only company to manufacture DCT systems in the Indian market.

Long-term relationships with key marquee customers across geographies and continued focus on cost optimization to drive the business forward

The company has been able to formulate well-established relationships with several marquee clients such as BorgWarner, Tata Motors, and Mahindra & Mahindra for over two decades, providing them a significant competitive edge. This can be attributable to the company's consistent track record and its ability to manufacture and supply components as per the customer's varied requirements. Additionally, the company's strategy of having its manufacturing facilities near its key customers has reduced logistic concerns and enabled it to fulfill customer's demand schedule more efficiently. Moreover, the company's ability to manufacture automotive transmission products and critical precision products at a large scale enables them to offer its products at competitive prices to OEMs in India who are currently more reliant on imports, thereby reducing their costs as well.

Valuation and Outlook

Divgi TorqTransfer Systems Ltd. is one of the leading companies supplying transfer case systems to OEMs and the largest supplier of transfer case systems to passenger vehicle manufacturers in India. Along with this, DTTSL is also a prominent manufacturer of steel synchronizers produced domestically. Overall, the company's strength lies in its in-house software development capabilities, providing them an edge over other competitive players in the field. Going forward, the company's approach to focus on its research & development (R&D) in response to serving emerging trends and improving its market share by catering to new customers bodes well with its growth strategy plan. On the upper end of the price band, the issue is valued at a P/E of 35.2x based on FY2022 earnings which is one of the lowest compared to the listed peer group. Also, the company maintained a healthy financial performance despite the overall slowdown in the global automotive sector in FY2020 and the impact of the COVID-19 pandemic. We, therefore, recommend a "SUBSCRIBE" rating for the long term.

Issue Details	
Offer Period	01 st March 2023 - 03 rd March, 2023
Price Band	Rs.560 to Rs.590
Bid Lot	25
Listing	BSE & NSE
Issue Size (no. of shares in mn)	6.99
Issue Size (Rs. in bn)	4.12
Face Value	5

Issue Structure	
QIB	75%
NIB	15%
Retail	10%
BRLM	Inga Ventures Private Ltd. Equirus Capital Private Ltd.
Registrar	Link Intime India Private Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	62.64	56.39
Promoter Group	4.55	4.09
Public	32.81	39.52
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138



Divgi TorqTransfer Systems Ltd.

Income Statement (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY23
Revenue				
Revenue from Operations	1,591	1,866	2,338	1,337
Total Revenue	1,591	1,866	2,338	1,337
Expenses				
Cost of raw material and components consumed	560	689	936	547
Change in inventory of finished goods,work in progress and stock-in-Trade and work-in progress	22	(19)	1	3
Employee benefit expenses	196	218	225	133
Other expenses	443	459	520	284
Total Operating Expenses	1,221	1,347	1,682	966
EBITDA	369	519	656	371
Depreciation and Amortization expenses	64	76	114	63
Other income	117	85	81	38
EBIT	422	527	623	346
Finance costs	45	2	2	1
Exceptional Item	-	-	-	-
PBT	378	526	622	345
Current tax	111	144	162	92
Tax relating to previous years	-	-	-	-
Deferred Tax charge/ (credit)	(14)	1	(2)	(4)
MAT Credit reversed/(availed)	-	-	-	-
Total tax	97	145	160	88
PAT	280	380	462	257
Diluted EPS	11.6	13.8	16.8	9.3

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY23
Cash Flow from operating activities	383	270	511	103
Cash flow from investing activities	(243)	(246)	(511)	(114)
Cash flow from financing activities	(58)	(26)	(29)	(92)
Net increase/(decrease) in cash and cash equivalents	83	(2)	(29)	(103)
Cash and cash equivalents at the beginning of the period	123	205	203	174
Cash and cash equivalents at the end of the period	205	203	174	70

Source: RHP, BP Equities Research



Divgi TorqTransfer Systems Ltd.

Balance Sheet (Rs in millions)

Particulars	FY20	FY21	FY22	H1FY23
Equity and Liabilities				
Equity Share Capital	60	69	138	138
Other Equity	2,035	2,890	3,262	3,424
Total Equity	2,095	2,959	3,400	3,562
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	2	1	0	4
ii) Lease Liabilities	3	3	2	14
Long Term Provisions	44	48	48	49
Deferred tax assets/Deferred tax (liabilities)(net)	6	7	5	1
Total Non Current Liabilities	55	60	55	67
Current Liabilities				
Financial Liabilities				
(i) Borrowings	502	1	1	1
(ii) Lease liabilities	4	5	2	5
(iii) Trade Payables	232	398	396	366
Other financial liabilities	92	127	90	135
Other current liabilities	8	4	29	60
Provisions	16	21	21	28
Current tax liabilities (net)	32	53	60	77
Total Current Liabilities	886	610	599	673
Total liabilities	942	670	654	740
Total Equity and Liabilities	3,037	3,629	4,054	4,302
Assets				
Non-Current Assets				
Property, plant and equipment	878	1,037	1,080	1,047
Capital work in Progress	10	28	168	346
Right of Use assets	11	13	8	23
Intangible assets	5	4	30	27
Intangible assets under development	52	34	117	119
Financial Assets	-	-	-	-
(i) Non-current investments	0	0	0	0
(ii) Other non-current financial assets	10	9	10	16
Other non-current assets	25	7	5	13
Total Non current assets	991	1,133	1,418	1,592
Current Assets				
Inventories	208	267	301	320
Trade Receivables	234	548	526	688
Cash and cash equivalents	205	203	174	70
Bank balances other than cash and cash equivalents	1,295	1,386	1,559	1,546
Other current financial assets	52	31	34	30
Other current assets	53	62	42	56
Total Current Assets	2,046	2,496	2,635	2,711
Total Assets	3,037	3,629	4,054	4,302

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company's revenue from operations is heavily reliant on its top five customers.
- ⇒ The company's export business operations is heavily concentrated in two countries - China and Russia.
- ⇒ The company is exposed to foreign currency exchange rate fluctuations, which may adversely affect its results of operations and cause its quarterly results to fluctuate significantly.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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