

Business Overview

- Divgi Torqtransfer Systems Limited was incorporated on December 16, 1964.
- They are amongst 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.
- They design, develop, manufacture and supply engineered, turnkey solutions and components to automotive OEMs across India, USA, China, Korea, Russia and others.
- They have an in-house software development capability which helps the company 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.
- Their customer base includes leading automotive OEMs such as Tata Motors, Mahindra & Mahindra, BorgWarner, a Japanese automotive supply chain company, a Chinese automobile manufacturer, an Indian automotive manufacturing company, and an Indian supplier to global automotive OEM, amongst others.
- The Company actively collaborates with Europe's transmission engineering consulting firms like FEV and Hofer.
- They are one of the few companies who serve both as systems level solution provider as well as component kit supplier to global OEMs and Tier I transmission systems suppliers.
- They supply to and have long term relationships with OEMs such as Mahindra & Mahindra, an Indian supplier to global automotive OEM, and a USA based multi-national automotive supplier.
- They have 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 the key clients, and one under-construction manufacturing facility located at Shirwal, Maharashtra. (As on February 3, 2023, the construction of our facility at Shirwal, Maharashtra is 80.00% completed, and is expected to be fully completed by Fiscal 2024.)

Issue Details

Fresh Issue of Equity Shares aggregating up to ₹ 180 Cr and Offer for Sale of 3,934,243 Equity Shares

Issue size: ₹ 400 - 412 Cr

No. of shares : 7,148,529 - 6,985,090

Face value: ₹ 5/-

Price band: ₹ 560 - 590

Bid Lot: 25 shares and in multiples thereon

Post Issue Implied Market Cap:

₹ 1,722 - 1,804 Cr

BRLMs: Inga Ventures, Equirus Capital

Registrar: Link Intime India Pvt Limited

Indicative Timetable

Activity	On or about
Anchor Investor Issue Opens	28-02-2023
Issue Opens	01-03-2023
Issue Closes	03-03-2023
Finalization of Basis of Allotment	09-03-2023
Refunds/ Unblocking ASBA Fund	10-03-2023
Credit of equity shares to DP A/c	13-03-2023
Trading commences	14-03-2023

Listing: BSE & NSE

Issue Break Up

	No of Shares		₹ in Crore		% Of issue
	Lower	Upper	Lower	Upper	
QIB	5,361,397	5,238,818	300.24	309.09	75%
NII	1,072,279	1,047,764	60.05	61.82	15%
NII-1	357,426	349,255	20.02	20.61	
NII-2	714,853	698,509	40.03	41.21	
RET	714,853	698,509	40.03	41.21	10%
Total	7,148,529	6,985,090	400.32	412.12	100%

Shareholding (No of Shares)

Pre-Issue	Post Issue	
	Lower	Upper
27,532,080	30,746,366	30,582,927

*Calculated using data in RHP








BUSINESS OVERVIEW

- Divgi Torqtransfer Systems Limited has a client base of global OEMs and global transmission systems suppliers, and for the six months period ended September 30, 2022 and for Fiscal 2022, Fiscal 2021 and Fiscal 2020 their top five customers accounted for the following:

Six months ended September 30, 2022		Fiscal 2022		Fiscal 2021		Fiscal 2020	
Contribution from top five customers (in ₹ Cr)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ Cr)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ Cr)	As a percentage of revenue from operations	Contribution from top five customers (in ₹ Cr)	As a percentage of revenue from operations
123.91	92.66%	213.39	91.28%	173.26	92.86%	138.29	86.94%

- The Company has entered into a product development agreement (“PDA”) and a technology transfer agreement (“TTA”) with a German automotive company. Pursuant to the PDA and TTA, the Company is co-developing critical components and systems for DCT applications with exclusive rights for India and non-exclusive rights for markets outside India. The German automotive company is entitled to an earned royalty from the Company during the term of the TTA. The licensing arrangement pursuant to the TTA will continue for a period of 13 years from the date of signing till 2033. In connection to the PDA and TTA, the production of the products has not yet commenced.
- They have also entered into a license agreement with BorgWarner on October 4, 2004, subsequently renewed on March 1, 2017, valid for a period of seven years from the date of renewal of the agreement. These agreements have bolstered their technological expertise and experience. Their agreement with BorgWarner provides them the exclusive rights to manufacture transfer cases and automatic locking hubs, and non-exclusive rights to manufacture manual transmissions and synchronizers for manual transmissions.
- They manufacture and supply a variety of products under the broad categories of (i) torque transfer systems (which includes four-wheel-drive (“4WD”) and all-wheel-drive (“AWD”) products); (ii) synchronizer systems for manual transmissions and DCT and (iii) components for the above-mentioned product categories for torque transfer systems and synchronizer systems in manual transmission, DCT, and EVs.
- They have also developed (i) transmission systems for EVs; (ii) DCT systems; and (iii) rear wheel drive manual transmissions.

Torque Transfer Products

						
Mechanical Transfer Case	Electric Shift Transfer Case	Torque-on-demand Transfer Case	Torque Coupler Transfer Case	Dual-offset Transfer Case	Dual-offset transfer case with bevel differential	Single-offset Transfer Case

- The principal raw materials and components used for manufacturing the products are forgings, castings, powder metal parts, sheet metal parts, electrical / electronic parts etc. They source these raw materials and components mostly from India as well as from certain other countries.

BUSINESS STRENGTHS

- **Divgi Torqtransfer Systems Limited is 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.**

They are amongst the very few suppliers in India who have the capability to develop and provide system level transfer case, torque coupler and DCT solutions as they have in-house software development capability. They have designed, developed, manufactured and supplied software embedded electronically controlled transfer cases and torque couplers for OEMs like Tata Motors, Mahindra & Mahindra Ltd, amongst others. They have, in the past worked with Indian OEMs as development partners for new projects.

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

Their facilities are equipped with advanced machinery and certain of their facilities are located in close proximity to the key customers to enable meeting the customers' demand schedules and logistical advantages for the customers, and to insulate them from local supply or other disruptions. They endeavour to combine modern manufacturing technology and engineering expertise with prudent operational management processes to deliver quality products in an efficient manner which has enabled them to penetrate markets like the USA, China, Korea, Russia and others.

- **Long-term relationships with marquee domestic and global customers.**

They have 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 BorgWarne. They are also engaged with few of leading OEMs in India, right from the stage of design and development and providing product development support in the process.

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

They are led by a highly experienced board of directors, and a professional and experienced management team with extensive experience in the automotive industry. They are supported by an experienced board of directors with diversified expertise, which actively contributes to and participates in the strategy.

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

Their focus on continuous efficiency improvements, improved productivity and cost rationalization has enabled them to deliver consistent and strong financial and operational performance. Their business model is supported by stable and recurring revenues, with a consistent track record of revenue growth and profitability. They have established a track record of growth and financial performance with steady cash flows from their operations. They have made investments in R&D and in building production capacities for future growth. They believe that they have developed in-house capabilities to deliver evolving technologies for future mobility solutions.

BUSINESS STRATEGIES

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

As part of their growth strategy, Divgi Torqtransfer Systems Limited plans to increase their market share in both the Indian and overseas markets by offering comprehensive transmission solutions and components to EV OEMs. They also intend to enter similar contracts with other customers across geographies. To establish themselves prominently in the Indian EV segment, they aim to further increase their customer penetration and acquire new customers in this segment. They intend to further leverage their presence in yet another fast-developing trend, which is the increasing demand for automatics observed across the entire UV segment.

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

They intend to strengthen their relationships with the existing customers and explore opportunities to grow along the value chain by expanding the array of their existing products and solutions that they supply to their customers across geographies, and to win new customer contracts by developing products and solutions aligned with their needs. They have also entered into an exclusive distribution agreement with a Japanese automotive supply chain company, to develop the market within identified Japanese companies. As part of their global delivery model, they also offer their customers especially in USA and Mexico, an option wherein they maintain a safety stock of components at warehousing facilities, which aids the customers reduce their supply chain related uncertainties which aids the customers reduce their supply chain related uncertainties.

- **Cost optimization through product engineering and localisation.**

They believe that their component business complements their product systems and solutions. While the components business offers them economies of scale which helps them optimize costs for their product systems and solutions, their understanding of the vehicle dynamics through the engagement in product systems and solutions helps them offer components which are better suited to their customers. Currently OEMs in India are heavily dependent on imports for a large cross-section of products. They have and will continue to engage with the customers to re-engineer products which help achieve better operational and cost efficiencies.

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

With the increasing penetration for automatics in passenger vehicles and with the emergence of EV, they believe that automotive drivetrains will shift from just mechanical systems to electronics control with embedded software to control the operation of these systems. They aim to capture this growing trend by continuously investing in R&D to develop and deliver new and innovative systems and components. With OEMs continuously focusing on weight reduction in PVs and EVs to enhance the range, augment the vehicle's acceleration and improve overall efficiency, they aim to develop solutions and alternatives for improving the torque density and reducing the weight of their DCT systems and EV transmission units through their R&D efforts. They aim to leverage their core engineering competence to enter newer areas with similar technology intensity and margin profile such as defence applications and precision components for non-automotive segments. They intend to maintain and strengthen their technological competencies through continued focus on improving their capabilities in engineering, mechatronics, software development and system integration.

COMPANY AND PROMOTERS

The Company was incorporated as Divgi Metalwares Private Limited on December 16, 1964. The Company is promoted by Jitendra Bhaskar Divgi, Hirendra Bhaskar Divgi and Divgi Holdings Private Limited. Currently, the promoters collectively hold an aggregate of 17,245,840 Equity Shares equivalent to 62.64% of the pre-offer issued, subscribed and paid-up Equity Share capital of the Company.

PROFILE OF DIRECTORS

Praveen Purushottam Kadle is the Chairman and Independent Director of the company and has been an independent director on the board since March 14, 2022. He is the Chairman of Prachetas Capital Pvt Ltd. He was associated with Tata Information Systems, Tata Engineering and Locomotive Co Ltd, Tata Capital Ltd and as an advisor to Tata Sons Limited.

Jitendra Bhaskar Divgi is the Managing Director on the Board. he worked at Digital Equipment Corporation, Massachusetts. He served on the Board of Directors of BorgWarner, China in 2000, and was associated with BorgWarner till 2005.

Hirendra Bhaskar Divgi is a Whole-time Director on the Board. He joined the Company in 1988 and has served in various capacities such as the new product development manager and has also worked in the role of controller operations at Company. He has over 30 years of experience working at the Company.

Sanjay Bhalchandra Divgi is a 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

Bharat Bhalchandra Divgi is a Director on the board. 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.

Pradip Vasant Dubhashi is the Independent Director on the Board. He was previously associated with the State Industrial and Investment Corporation of Maharashtra Ltd (SICOM) as a senior development officer.

Ajay Bhaskar Limaye is the Nominee Director on the Board, appointed by Oman India Joint Investment Fund II. He was previously associated with CEAT Ltd, Gujrat Venture Finance Ltd, SICOM Capital Management Ltd, Tata Capital, KSK Energy Company Pvt Ltd and OIJIF.

Pundalik Dinkar Kudva is an Independent Director on the Board He is a Partner in P.D. Kudva & Co., specializing in advisory services, direct tax litigation, and legal representation. He was a Treasurer of Zonal Transplant Co-ordination Centre and has been a Trustee since June 1, 2009 and continues till date.

Geeta Prafullachandra Tolia is an Independent Director on the Board. She worked as the Chief Financial Officer of Sepam Qatar W.L.L. and Sepam Middle East WLL. She is also the co-founder of Gravitech Business Solutions Pvt Ltd.

OBJECTS OF THE OFFER

The Net Proceeds are proposed to be used in accordance with the details provided in the following table:

Particulars	Amount [₹ in crore]
Funding capital expenditure requirements for the purchase of equipments /machineries at the manufacturing facilities	150.71
General corporate purposes	[•]
Total Net Proceeds	[•]

OFFER DETAILS

Fresh Issue	No. of Shares	WACA per Equity Share (in ₹)
Fresh Issue (₹ 180 Cr)	Up to 3,214,286-3,050,847 Equity Shares	-
Name of Selling Shareholder	Upto 3,934,243 Equity Shares	WACA Per Equity Share (in ₹)
The Investor Selling Shareholder:		
Oman India Joint Investment Fund II	Up to 2,250,000 Equity Shares	167.30
NRJN Family Trust (represented by its corporate trustee, Entrust Family Office Legal and Trusteeship Services Pvt Ltd)	Up to 1,441,441 Equity Shares	125.28
The Other Selling Shareholders:		
Bharat Bhalchandra Divgi	Up to 49,430 Equity Shares	0.69
Sanjay Bhalchandra Divgi	Up to 40,640 Equity Shares	0.82
Ashish Anant Divgi	Up to 104,020 Equity Shares	0.38
Arun Ramdas Idgunji	Up to 33,660 Equity Shares	2.50
Kishore Mangesh Kalbag	Up to 15,232 Equity Shares	2.50

OFFER DETAILS

Shareholders	Pre IPO		No of Shares offered	Post IPO	
	No of equity shares	% of total equity share capital		No of equity shares	% of total equity share capital
Promoter and Promoters Group					
Promoter	17,245,840	62.64%	-	17,245,840	56.39%
Promoters Group	1,251,360	4.55%	-	1,251,360	4.09%
Total for Promoter and Promoters Group	18,497,200	67.18%	-	18,497,200	60.48%
Public - Investor Selling Shareholder	8,372,080	30.41%	3,691,441	4,680,639	15.30%
Public - Other Selling Shareholder	657,200	2.39%	242,802	414,398	1.35%
Public - Others	5,600	0.02%	-	6,990,690	22.86%
Total for Public Shareholders	9,034,880	32.82%	3,934,243	12,085,727	39.52%
Total Equity Share Capital	27,532,080	100.00%	3,934,243	30,582,927	100.00%

COMPARISON WITH PEERS

Name of the company	Latest Fiscal	Face Value [₹]	P/E	EPS (basic) [₹]	EPS (diluted) [₹]	RONW [%]	NAV per equity share [₹]
Divgi TorqTransfer Systems Ltd	Standalone	5	[•]	16.76	16.76	13.57	123.50
Listed Peers							
Sona BLW Precision Forgings Ltd	Consolidated	10	73.52	6.22	6.21	18.07	34.23
Bosch Ltd	Consolidated	10	41.44	413.10	413.10	11.41	3621.05
ZF Commercial Vehicle Control Systems India Ltd	Consolidated	5	124.83	74.90	74.90	6.72	1114.57
Sundram Fasteners Ltd	Consolidated	1	45.10	21.74	21.74	17.52	125.46
Endurance Technologies Ltd	Consolidated	10	44.61	32.75	32.75	11.75	278.68

*Source RHP

All the financial information for the Company mentioned above is based on the Restated Standalone Financial Statements for the year ended 31 March 2022.

All the financial information for listed industry peers mentioned above is on a consolidated basis and is sourced from the audited consolidated financial statements of the respective companies for the year ended 31 March 2022.

P/E Ratio has been computed based on the closing market price of equity shares on February 1, 2022, on www.nseindia.com

FINANCIAL INFORMATION

(₹ in Cr)

Particulars	As at Sep' 30,	As at Mar' 31,		
	2022	2022	2021	2020
Equity Share Capital	13.77	13.77	6.88	6.02
Reserves	342.43	326.25	288.99	203.51
Net worth as stated	356.20	340.02	295.87	209.53
Revenue from Operations	133.72	233.78	186.58	159.07
Revenue Growth (%)	-	25.30%	17.29%	-
EBITDA as stated	37.09	65.61	51.9	36.94
EBITDA Margin (%)	27.74%	28.07%	27.82%	23.22%
Profit Before Tax	34.50	62.15	52.56	37.76
Net Profit for the period	25.66	46.15	38.04	28.04
Net Profit (%) as stated	18.66%	19.08%	19.51%	16.42%
EPS – Basic (₹)	9.32*	16.76	13.82	11.64
EPS – Diluted (₹)	9.32*	16.76	13.82	10.18
RONW (%)	7.20%	13.38%	12.86%	13.57%
NAV (₹)	129.38	123.50	107.47	86.98

Source: RHP Restated, * not annualised

KEY RISK FACTORS

- The business largely depends upon the 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 the exports to certain countries and the inability to operate and grow the business in such countries may have a material adverse effect on the 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.
- They depend on some third party suppliers for certain key components and raw materials used for manufacturing the systems and components. A disruption in the supply of these key components and raw materials and failure of the suppliers and third- party logistics service providers to meet their obligations and could impact the on time supplies and input cost, if resourced from other suppliers.
- Delays or defaults in customer payments and receivables may adversely impact the profits and affect the cash flows.
- They are exposed to foreign currency exchange rate fluctuations, which may adversely affect the results of operations and cause the quarterly results to fluctuate significantly
- They have not yet placed orders in relation to the capital expenditure for the purchase of equipments /machineries for the manufacturing facilities. In the event of any delay in placing the orders, or in the event the vendor is not able to provide the equipments in a timely manner, or at all, it may result in time and cost overruns and the business, prospects and results of operations may be adversely affected.
- They may not be successful in implementing the growth strategies, including the strategy to capture market Opportunity in the growing EV market and other new initiatives.

- Development of the technologically advanced systems and components involves a lengthy and expensive process with uncertain timelines and uncertain outcomes. They are dependent on the success of the R&D and the failure to develop new or improved products or process improvements, or production techniques could subject the company to write-offs or otherwise adversely affect the business, financial condition and results of operations and have a negative impact on the competitive position
- They have only three manufacturing plants as on the date of this Red Herring Prospectus. The manufacturing facility at Sirsi , Karnataka has the highest installed capacity, amongst the three manufacturing plants Fluctuations in transportation and logistics costs could have a negative impact on the cash flow and revenue
- They rely on the skills and experience of the management, key managerial personnel and senior management personnel and the loss of any of these team members, the inability to attract and retain skilled and qualified personnel or potential conflict of interest could have a material adverse effect on the business operations.
- The Company was referred to the Board for Industrial and Financial Reconstruction and was declared a “Sick Company” under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985
- They require certain licenses, permits and approvals in the ordinary course of business, and the failure to obtain or retain them in a timely manner may materially adversely affect the operations.
- They do not hold any patents or other form of intellectual property protection in relation to the manufacturing processes, and the inability to maintain the integrity and secrecy of the manufacturing processes may adversely affect the business.

Please read carefully the Risk Factors given in detail in section II (page 26 onwards) of RHP

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JM Financial Services Ltd.

Stock Broker - Registration No. - INZ000195834 Corporate Identity Number: U67120MH1998PLC115415

Registered office Address: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin-400025.

Tel: (91 22) 6630 3030 |Fax: (91 22) 6630 3223

Corporate office Address: 5th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin-400025.

Tel: (91 22) 6704 3000/3024 3000 |Fax: (91 22) 6704 3139.