



IPO Report

08th Sept '24

Snapshot

Company is a diversified player focused on manufacturing and supply of trailer axle and suspension assembly and a wide range of forged and precision machined high performance safety critical parts for medium and heavy commercial vehicles (“M&HCV”) and farm equipment segments. Company is widely recognized as one of the prominent manufacturers of trailer axles and suspension assembly in India. In 2019, company commenced manufacture and sale of trailer axle and suspension assemblies and have witnessed robust growth between Fiscal 2021 and Fiscal 2024 . Company have become one of the fastest growing player in the organised trailer axle manufacturing industry competing with major trailer axle manufacturers.

VALUATION

Company is bringing the issue at price band of Rs 228-240 per share at p/e multiple of 35x on post issue FY24 PAT basis. Company has long standing relationship with large OEMs and their tier one suppliers, domestic dealers and fabricators for its trailer axle and suspension business complemented by a diversified network of dealers for trailer axle and suspension assembly business . Company has wide recognition as one of the prominent manufacturers of trailer axles and suspension assemblies in India and one of the few players domestically with the competency to manufacture trailer axles and suspension assembly in-house along with diversified product portfolio with a focus on continuous value addition . Hence ,looking after all above we recommend “Subscribe” on issue.

Price Band (Rs./Share)	228-240
Opening date of the issue	09th Sept '2024
Closing Date of the issue	11th Sept '2024
No of shares pre issue	54,092,756 Eq Shares
Issue Size	Rs 500 Cr
No of shares	21929825-20833333 Eq Shares
Fresh issue	Rs 250 Cr
Offer For Sale	Rs 250 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	62

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer
Non-Institutional	15% of the offer
Retail	35% of the offer
Lead managers	Equirus Capital
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Long standing relationship with large OEMs and their tier one suppliers, domestic dealers and fabricators for company’s trailer axle and suspension business complemented by a diversified network of dealers for company’s trailer axle and suspension assembly business

In over three decades of company’s operations, company have established long-standing relationships with several well established Indian and global customers like OEMs Ashok Leyland Limited, Tata International DLT Private Limited, a leading Indian automobile OEM, a leading Indian farm equipment OEM, and global Tier I supplier for auto components.

Company is widely recognized as one of the prominent manufacturers of trailer axles and suspension assemblies in India and one of the few players domestically with the competency to manufacture trailer axles and suspension assembly in-house

Company have evolved from being a manufacturer of precision machined auto components to being a systems manufacturer by entering into manufacture of trailer axles and suspension assemblies in 2019. Company have witnessed robust growth between Fiscal 2021 and Fiscal 2024, enabling it to compete with major trailer axle manufacturers

Diversified product portfolio with a focus on continuous value addition

Company is a diversified player involved in manufacturing and supply of wide range of forging and machined precision components and assemblies. Company is widely recognized as a prominent manufacturer of trailer axles and suspension assembly in India and are also a prominent manufacturer of differential spiders in the M&HCV segment. Further, company is a specialist in manufacturing high precision safety critical components which include companion flanges, axle shafts, rear end spindles, anti-roll bars and stabiliser bar assembly, differential spiders and inter-axle kits, bevel gear assembly, suspension linkages and trunnion pin, universal joints, gear joint assemblies, clutch release forks, pole wheels, input and output shafts, adapter ring gears, planet carrier assembly, cam shafts and wide variety of tractor components for the hydraulic lift arrangement such as control spring assemblies, arm rams, arm hydraulic lifts, PTO shafts and spindle front axles.



COMPANY BACKGROUND

With over three decades of experience, company rely on its product development capabilities to design and deliver proprietary products such as trailer axle and suspension assembly. Company is one of the few players domestically, with the competency to manufacture trailer axles and suspension assembly in-house.

With a diversified portfolio of high performance and safety critical components for the M&HCV and farm equipment segments, company is a specialist in manufacturing of safety critical components for M&HCV segment which include axle shafts, companion flanges, anti-roll bars and stabilizer bar assembly, suspension linkages, differential spiders, bevel gears, planet carriers, inter-axle kits, rear end spindles, pole wheels and wide variety of tractor components for the hydraulic lift arrangement, power take-off (“PTO”) shafts and front axle spindles. Company supply its products to a diversified client base which includes large original equipment manufacturers (“OEMs”) manufacturing M&HCV and tractors, tier one suppliers to the OEMs in the M&HCV segment domestic dealers and fabricators for its trailer axle and suspension business. In the past company have been recognized by customers for the high-quality of the products supplied by it, which is one of the factors that has helped company establish long term relationships with several large domestic and global OEMs, including, Ashok Leyland Limited, a leading Indian automobile OEM and a Indian farm equipment OEM, each of whom company have been associated with for a period of more than 18 years and Tata International DLT Private Limited with whom company have been associated since 2019. Due to company’s track record and diverse product portfolio, company have also been able to attract new customers such as Leax Falun AB and a Japan based OEM manufacturing commercial vehicles. Company have also commenced its bulk exports to Leax Falun AB, a Sweden based company manufacturing propeller shafts for commercial vehicle OEMs, in August 2023 with supplies of Universal Joint Crosses and are in stages of validation for other critical parts.

Company is backward integrated with design, process engineering, forging, casting and machining capabilities which allows company greater control over process, timelines, pricing and quality. Company’s in-house design capabilities have been instrumental in its success by allowing company to work closely with customers for design and development of high performance and safety-critical components and assemblies, such as, anti-roll bars and stabiliser bars, where company along with the OEM’s design team, conceptualised the design and framework of the product. For company’s trailer axles and suspension assemblies, company is also forward integrated with a network of sales and service locations across key states in India. Design, technology used for development, backward integration and after-sale service provided are crucial aspects for trailer axle manufacturers . For company’s trailer axle and suspension assembly business, company operate its service on a mobile and on road basis, where once a complaint is registered by the customer, company’s service associate is deployed to the location of origin of the compliant to resolve the same. Company have a custom service software developed by Sales force which gives company accurate tracking of service complaints as well as service history of the vehicle.

Company operate out of five manufacturing facilities in Jamshedpur, Jharkhand, equipped with (i) forging presses and upsetters equipped with induction billet heaters, (ii) foundry with a high pressure mould line, (iii) high-precision machining equipment such as turning centres, vertical and horizontal milling centres, grinding, broaching, hobbing, shaping and robotic welding, (iv) in-house cathodic electro-disposition plant (“CED Plant”), powder coating, spray painting and (v) heat treatment furnaces and induction hardening equipment. Company’s manufacturing facilities (Units I, II, III, IV and V) have obtained ISO 9001:2015 for manufacture of axle shaft, PTO shaft, lift shaft, ring gear, bevel gear assembly and related parts from TÜV NORD CERT GmbH and IATF 16949:2016 quality certifications for manufacture of axle shafts, universal joints (for steering and propeller shaft), differential spiders, companion flanges, anti-roll bar, bevel kit assembly and trailer axle assembly from TÜV NORD CERT GmbH. Additionally, company’s Unit III manufacturing facility has also obtained ISO 14001:2015 for manufacture of axle shaft, universal joints and propeller shaft parts, differential spiders, companion flanges, bevel kit assemble and CED coating from TÜV NORD CERT GmbH and ISO 45001:2018 for manufacture of axle shaft, PTO shaft, lift shaft, ring gear, bevel gear assembly and related parts from TÜV NORD CERT GmbH. Company currently manufacture a large variety of components and have the capacity to manufacture forged parts of up to 40 kg input weight. Company enhanced its backward integration capabilities by establishing a new casting facility at Unit V, setting up a high-pressure mould line foundry along with a machine shop. Company is in the process of expanding company’s capacity and increasing company’s product offerings through the expansion of its existing facilities, through the addition of further production lines, which will allow company to produce a new line of parts such as the hydraulic cover for tractors and in-house machining line of hubs and brake drums.

Company’s Chairman and Managing Director, Sudhir Rai, has been an integral part in the establishment and growth of company and with over three decades of experience in the automotive component manufacturing industry, and has been instrumental in company’s continued growth. Most of the Key Management Personnel and the Senior Management Personnel of the Company have also been associated with company for more than a decade and have contributed to the growth of the Company through their commitment and expertise. Company’s experienced and dedicated senior management team also enables company to identify market opportunities, formulate and execute business strategies, manage customer expectations and proactively address changes in market conditions.



INVESTMENT RATIONALE

Integrated manufacturing operations coupled with in-house product and process design capabilities which offer scale, flexibility and comprehensive solutions

Company operate out of five manufacturing facilities in Jamshedpur, Jharkhand which are equipped with capabilities to design, develop and manufacture company’s diverse product portfolio. Company is backward integrated with design, process engineering, forging, casting and machining capabilities which allows company greater control over process, delivery timelines, pricing and quality. This reduces company’s dependence on third parties, streamlines its production process and improves company’s operational efficiencies. In addition, it also enables company to maintain control over the entire manufacturing process and also provide better delivery timelines to its customers at a more competitive cost. Further, company’s backward integration helps it in reacting to emerging trends and develop prototypes in anticipation of the same. Company’s in-house design capabilities have been instrumental in its success by allowing company to work closely with customers for design and development of safety-critical components and assemblies, such as, anti-roll bars and stabiliser bars, where company along with the OEM’s design team, conceptualised the design and framework of the product.

Experienced Promoters supported by a management and execution team with proven track record

Company is led by an experienced management team that has the expertise and vision to manage and grow com[pany’s business. Company’s Chairman and Managing Director, Sudhir Rai, has been an integral part in the establishment and growth of Company and with over three decades of experience in the automotive industry, and has been instrumental in company’s continued growth. Company’s business operations are led by Sumeet Rai, Promoter and whole time Director, company’s commercial portfolio is led by Kunal Rai, Promoter and whole time Director (Finance) and CFO, both of whom have over 9 years of experience in the automotive industry and company’s stores, supply chain and procurement are led by Anita Rai, Promoter and whole time Director and who has been associated with company since incorporation. Company also benefit from the experience of its Independent Directors, some of whom are professionals with extensive experience in manufacturing industries. Company’s Board of Directors is ably supported by a strong and long-standing management team comprising of K Suresh Babu, General Manager (Operation), Sandeep Kumar, General Manager (Sales), Ranjan Kumar Sarkar, General Manager (Forging) and Pawan Mehar, AGM-Quality, each of whom have experience in various fields ranging from operations, new product development to marketing. The extensive experience, skills and knowledge of its senior management is a key to company’s business growth. Company’s experienced and dedicated management team also guide and assist company to capture market opportunities, formulate and execute business strategies, manage client expectations as well as proactively manage changes in market conditions.

Long standing relationship with large OEMs and their tier one suppliers, domestic dealers and fabricators for company’s trailer axle and suspension business complemented by a diversified network of dealers for company’sr trailer axle and suspension assembly business

The strength of company’s customer relationships is attributable to its ability to customize to customer specifications and requirements, as well as company’s track record of consistent delivery of quality and cost-effective products and solutions over the years. Company partner with its key customers at various stages of product development, commencing from product design, validation and testing up to final manufacturing and delivery. This helps company understand customer requirements and future plans better, enabling company to forecast, plan and manufacture its products accordingly, thereby resulting in business optimization, improved productivity, efficiency and margins.



OBJECTS OF OFFER

The Offer comprises the Fresh Issue and the Offer for Sale.

Objects of the Fresh Issue

Company intend to utilize the net proceeds of the Fresh Issue to meet the following objects:

1. Funding of capital expenditure requirements of Company towards purchase of machinery and equipment;
2. Repayment or prepayment, in full or in part, of all or a portion of certain outstanding borrowings availed by Company, from banks and financial institutions;
3. Funding working capital requirements of the Company; and
4. General corporate purposes

RISKS

Company's top five customers contributed a significant portion (more than 66.00% in each of the previous three Fiscals) of company's revenues. The loss of a major customer or reduction in demand for company's products from any of its major customers may adversely affect company's business, financial condition, results of operations and prospects.

Source:RHP

INDUSTRY OVERVIEW

Key growth drivers

Farm mechanisation improving across India

Although farm mechanisation has been increasing in India, its progress across states varies widely. The northern states of Punjab, Haryana and Uttar Pradesh have already achieved high levels of mechanisation, with sales driven primarily by replacement demand. The pace of mechanisation, though, is slower in eastern states, thus providing potential for sales growth.

Increasing non-farm usage of tractors

Farmers primarily purchase tractors for agricultural operations, but also use these for commercial purposes. Taking into consideration the short period that tractors are deployed on farms, farmers look for alternate uses such as renting it out to other farmers or to rural contractors involved in construction activities.

Tractors are also used in mining, construction and haulage activities. Currently, non-farm usage accounts for 18- 23% of demand for tractors.

As tractors are used only for short periods on farming activities, it is not economically viable for farmers to deploy them solely for farming purposes. Hence, going forward, tractors rural construction and transportation will also gain prominence in tractor usage, apart from agriculture.

Commercial demand for tractor account for 16-23% of overall tractor demand.

Rental model and low-cost tractors key to penetrating fragmented land holdings in India

Despite the huge potential total arable land offers, the fragmented land-holding pattern in India remains a hurdle. With over 80% of land holdings being small and marginal (less than 2 ha), most farmers are unable to afford tractors. They depend on renting tractors or buying small tractors to improve productivity, a trend which is rapidly gaining hold.

India's agriculture ministry has developed a farm equipment rental app for Indian farmers, which lets them hire tractors, rotavator and other farm related machinery on rent with flexible tenures.

Segment-wise tractor sales shifting towards higher horsepower

The 41-50 hp segment has maintained its dominant share because of multiple applications in agriculture and haulage. Bulk of the implements available are also better-suited for 41-50 hp tractors.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24
Total Revenue (A)	2974.55	4886.28	6202.50
Total Expenditure (B)	2679.07	4311.06	5394.92
EBIDTA	295.48	575.22	807.58
EBIDTA Margin	9.93	11.77	13.02
Other Income	4.26	7.29	12.14
Depreciation	55.03	43.22	57.86
EBIT	244.71	539.29	761.86
Interest	81.61	122.19	148.96
PBT	163.10	417.10	612.90
Share of profit in Asso	0.00	0.00	0.00
PBIT	163.10	417.10	612.90
Exceptional	0.00	0.00	0.00
PBT	163.10	417.10	612.90
Tax	41.41	107.79	164.09
PAT	121.69	309.31	448.81
NPM	4.09	6.33	7.24
ROE%	16.81	30.29	30.57
EPS	2.25	5.72	8.30
Eq Cap	135.23	135.23	270.46
Net Worth	724.04	1,021.06	1,468.05

(Source: RHP)

Peer Comparison

Company Name	P/E	Revenue from operations (Rs in Lakhs)	EPS	NAV	ROE %
Kross Limited*		6202.50	8.30	27.14	30.57
Peers					
Ramkrishna Forgings Limited	46.55	39548.83	20.27	148.48	12.72
Jamna Auto Industries Limited	24.30	24267.73	5.15	22.64	22.74
Automotive Axles Limited	17.05	22291.74	109.95	579.63	18.97
GNA Axles Limited	17.32	15062.62	23.28	186.69	12.47
Talbros Automotive Components Limited	19.03	7782.67	17.82	87.02	20.47

(Source: RHP)



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