



NEUTRAL

IPO Report

20th Dec'24

Snapshot

Carraro India is a technology driven integrated supplier that develops complex engineering products and solutions for original equipment manufacturer (“OEM”) customers. Company is an independent tier 11 solution provider of axles, transmission systems and gears for the agricultural tractor and construction vehicle industries in India. Company support the full value chain of services as a solution provider for axles, transmission systems, gears and other related components with in-house product design manufacturing capabilities. Company’s Promoter, Carraro S.p.A., is the parent company of the Carraro Group which designs, manufactures and sells transmission systems (axles, transmissions and drives) mainly for agricultural and construction equipment for offhighway vehicles, in addition to marketing a wide range of gears for diverse sectors, from automotive to trucks to agricultural and construction vehicles. The Carraro brand is owned by Carraro S.p.A. and licensed to company pursuant to a licensing agreement with Carraro S.p.A.

VALUATION

Company is bringing the issue at price band of Rs 668-704 per share at p/e multiple of 40x annualized H1FY25 PAT basis. Company is one of the leading tier 1 suppliers of transmissions systems and a key supplier of axles in the agricultural tractor and construction vehicle industries in India with competitive moat for mission critical and complex driveline components. Company has longstanding relationships with marquee local and international supplier base. Company has strong, in-house R&D capabilities with proprietary IP rights to facilitate innovation of future-ready products. Also, company has technologically advanced manufacturing plants with large production capacities.. Hence Looking after all above , we recommend “Neutral” on issue.

Price Band (Rs./Share)	668-704
Opening date of the issue	20th Dec '2024
Closing Date of the issue	24th Dec '2024
No of shares pre issue	5,68,51,538 Eq Shares
Issue Size	Rs 1250 Cr
Offer For Sale	Rs 1250 Cr
No Of Shares	18,712,574 -17,755,681 Equity Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	21

BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 9,356,286 Eq Shares)
Non-Institutional	15% of the offer (Approx 2,806,887 Shares)
Retail	35% of the offer (Approx 6,549,401 Eq Shares)
Lead managers	Axis Capital, BNP Paribas, Nuvama Wealth

Registrar to the issue Link Intime India Pvt. Ltd

WHAT WE LIKE

One of the leading tier 1 suppliers of transmission systems and a key supplier of axles in the agricultural tractor and construction vehicle industries in India with competitive moat for mission critical and complex driveline components

Company is one of the leading independent tier 1 suppliers of axles, transmission systems and gears for the agricultural tractor and construction vehicle industries in India, and as of March 31, 2024, Company has established itself as the market leader in providing transmission systems for tractors up to 150HP and four wheel drive capabilities.

Technologically advanced manufacturing plants with large production capacities and in-house gear production capabilities

Company own and operate two manufacturing plants in Pune, Maharashtra, India, namely the driveline manufacturing plant and the gears manufacturing plant, which are in close proximity to company’s key suppliers.

Longstanding relationships with marquee local and international supplier base

As a one-stop shop OEM supplier, company have an established presence in the agricultural tractor and construction vehicle markets, during which time it have developed longstanding relationships with local suppliers in India and leveraged on the Carraro Group’s support for their relationship with international suppliers. As of September 30, 2024, company have a supplier base of 220 suppliers spanning across eight states in India and 58 suppliers internationally. Company also source from international suppliers in Europe, the People’s Republic of China and Japan.



COMPANY BACKGROUND

According to the Markets and Markets Report, Company was among the pioneers to enter the agricultural tractor and construction vehicle component market with its dedicated R&D team and center as the Carraro Group entered India in 1997 and established its manufacturing facility in Pune and R&D center in 2006. Company have been present in India for 27 years and have developed an extensive network with local and international customers and suppliers based in India. As an early-mover, company have had more time than its competitors to understand the market, identify customer needs and develop lasting customer relationships. As a result of company's customized products, company's customers are subject to high switching costs in case of a change of manufacturer.

Company primarily manufacture axles and transmission systems for agricultural tractors and construction vehicles such as backhoe loaders, soil compactors, cranes, self-loading concrete mixers and small motor graders. Company's products are mission critical for its customers, as its products constitute important components of company's customers' final products. Company provide a diverse range of products including axles and transmission systems of different HP ranges for off-highway vehicles in the agricultural tractor and construction vehicle sectors, as well as gears, shafts and ring gears for industrial and automotive vehicles.

Company also supply gears mainly used in industrial and automotive markets, spare parts which are primarily loose components of agricultural tractors and construction vehicles and other products which are non-core parts of agricultural tractors and construction vehicles.

Established in 1997, Company started manufacturing transmission systems and axles in 1999 and 2000, respectively. Company started to manufacture products for the Indian market by understanding its customer needs, leveraging the Carraro Group's research and development ("R&D") capability and knowhow to design and produce its products based on market trends, procuring materials at optimal costs from its supplier base and manufacturing its products in its own plants.

CTIPL was established in 2006 and focused on R&D of axles, transmission systems and other components of agricultural tractors and construction vehicles as an engineering service provider to Carraro S.p.A.'s global R&D center. Historically, CTIPL has participated in the design and development of products of the Carraro Group as a service provider and has focused on R&D of axles, transmission systems and other components of agricultural tractors and construction equipment. On October 1, 2023, Carraro S.p.A. transferred the worldwide exclusive rights, title and interest in the IP rights of certain products customized for the Indian market to company and entered into an engineering service agreement with company to provide engineering support services on the maintenance of products and child parts to support its development needs.

In June 2024, company completed its acquisition of CTIPL at a consideration of ₹ 239.82 million, after which CTIPL has become company's Subsidiary. The acquisition was conducted at arms' length basis and the consideration for such transaction was determined based on the valuation report dated June 20, 2024 issued by Rathi Rathi and Co., Chartered Accountants, pro-rated by the number of company's acquired equity shares of CTIPL. As a result of the acquisition, company acquired the R&D center in Pune, Maharashtra, India and the R&D team of CTIPL. The transfer of the foregoing IP rights and company's acquisition of CTIPL, together with the engagement of Carraro S.p.A. to support its development needs, enabled it to further strengthen its R&D offering and to integrate the design, R&D and manufacturing capabilities of its products, which is pivotal in enhancing company's competitive position in India.

Company own and operate two manufacturing plants in Pune, Maharashtra, India, which are the driveline manufacturing plant occupying a plot area of approximately 84,000 square meters and the gears manufacturing plant occupying a plot area of approximately 78,000 square meters. The manufacturing plants are equipped with technologies including the casting machining, assembly, prototyping, testing and painting in company's driveline manufacturing plant and the gears machining, heat treatment (carburizing, induction, hardening and nitriding) technologies in company's gears manufacturing plant. Company's gears manufacturing plant also holds the IATF 16949:2016 quality management certification.



INVESTMENT RATIONALE

<p><i>Strong, in-house R&D capabilities with proprietary IP rights to facilitate innovation of future-ready products</i></p>	<p>According to Markets and Markets, Company was among the first to enter the agricultural tractor and construction vehicle component market with its dedicated R&D team and center as the Carraro Group entered India in 1997 and established its manufacturing facility in Pune and R&D center in 2006. Established in 1997, Company started manufacturing transmission systems and axles in 1999 and 2000, respectively. As part of the Carraro Group, company use the Carraro corporate name, logo and trademarks pursuant to an agreement with Carraro S.p.A. Historically, CTIPL has participated in the design and development of products of the Carraro Group as a service provider and has focused on R&D of axles, transmission systems and other components of agricultural tractors and construction equipment. On October 1, 2023, Carraro S.p.A. transferred the worldwide exclusive rights, title and interest in the IP rights of certain products customized for the Indian market to Company and entered into an engineering service agreement with Company to provide engineering support services on the maintenance of products and child parts to support company’s development needs</p>
<p><i>Stable and experienced senior management team with strong industry knowledge and proven track record of growing the business and achieving margin optimization</i></p>	<p>Company have a stable management team, consisting of its Key Managerial Personnel and Senior Management, which has been with Company for an average of more than 11.3 years. Company’s management team has diversified experience in business, manufacturing, supply chain and financial management. Tomaso Carraro, its Vice President and Non-Executive Director, has been with the Carraro Group since 1994 and has been fundamental in shaping the business and strategic market position of Company today. Balaji Gopalan, company’s Managing Director, has been with the Carraro Group since 1998 and has experience in managing Company’s human resources department before becoming its managing director. Davide Grossi was appointed as company’s Whole-time Director and Chief Financial Officer in August 2024 and has experience in financial sector in another manufacturing company. Sudhendra Mannikar, company’s Chief Operating Officer, has been with the Carraro Group since 1999. During their tenure in the Carraro Group, company’s management team has accumulated extensive industry knowledge and has demonstrated its ability to drive business growth and continuous margin expansion. This is demonstrated in the Carraro Group’s proven track record of expanding the Carraro Group’s product portfolio and proprietary innovations, increasing sales growth in emerging and developed markets and achieving sustainable margin expansion.</p>
<p><i>Technologically advanced manufacturing plants with large production capacities and in-house gear production capabilities</i></p>	<p>Company own and operate two manufacturing plants in Pune, Maharashtra, India, namely the driveline manufacturing plant and the gears manufacturing plant, which are in close proximity to company’s key suppliers. Driveline Manufacturing Plant Company’s driveline manufacturing plant of approximately 84,000 square meters mainly manufactures agricultural and construction equipment, axles and transmission systems. Company’s driveline manufacturing plant is equipped with machining facilities, assembly facilities and painting facilities, supported by technologies such as casting machining, assembly, prototyping, testing and painting. Company’s driveline manufacturing plant holds the ISO 9001:2015 quality management system accreditation and the ISO 14001:2015 environmental management system accreditation, and its quality has been recognized by its customers. Gears Manufacturing Plant :Company’s gears manufacturing plant of 78,000 square meters mainly manufactures various types of gears and gear shafts for captive consumption and third-party customers. Company’s gears manufacturing plant is equipped with soft machining facilities, heat treatment facilities and hard machining facilities, supported by technologies such as gears machining and heat treatment (carburizing, induction, hardening and nitriding) technologies.</p>



OBJECTS OF OFFER

The objects of the Offer are to (i) carry out the Offer for Sale aggregating up to ₹12,500.00 million by the Promoter Selling Shareholder; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges

RISKS

Company derived 69.55% and 87.88% of its revenue in the six months ended September 30, 2024 and 69.37% and 85.39% of company's revenue in Fiscal 2024 from its top five and top 10 customers, respectively, and any inability to retain company's key customers or attract new customers and expand its customer network, could negatively affect company's business and results of operations..

Source:RHP

INDUSTRY OVERVIEW

Key Trends and Drivers in the Indian Agricultural Tractor Market

Shift towards higher HP tractors (41-50HP)

The Indian tractor market has experienced a notable shift from the 31-40 HP segment to the 41-50 HP segment over recent years. The share of 41-50 HP tractors increased from approximately 45% in CY2019 to around 51% in CY2023, including exports. The >50 HP segment also holds a substantial share, which was about 13% in CY2023, including exports. Factors contributing to the increased demand for higher HP tractors include the growing purchasing power of farmers, the trend of collaborative farming, commercial usage, and higher irrigation intensity. Additionally, technological advancements and OEMs' focus on exports have boosted the market for tractors above 40 HP in India.

Shift from 2WD tractors to 4WD tractors

The 2WD tractors have historically dominated the Indian agricultural tractor market. In CY2019, the 2WD tractor penetration was approximately 90%, which decreased to around 85% in CY2023. During the same period, the 4WD penetration increased from about 10% to 15%. The price of 2WD tractors is lower than that of 4WD tractors, as they are powered by a single axle. 2WD tractors are primarily used in dry farming conditions where the fields are not excessively muddy, sloped, or wet. After the introduction of TREM-IV regulations, farmers using 55 HP 2WD tractors are shifting to 49.5 HP tractors.



Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	H1 FY 2025
Total Revenue (A)	14975.43	17131.45	17889.65	9146.19
Total Expenditure (B)	14371.9	16084.87	16565.52	8216.43
EBIDTA	603.53	1046.58	1324.13	929.76
EBIDTA Margin	4.03	6.11	7.40	10.17
Other Income	225.10	201.53	175.82	81.20
Depreciation	359.06	394.36	431.38	222.85
EBIT	469.57	853.75	1068.57	788.11
Interest	162.23	197.87	224.85	118.94
PBT	307.34	655.88	843.72	669.17
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	307.34	655.88	843.72	669.17
Exceptional	0.00	0.00	0.00	0.00
PBT	307.34	655.88	843.72	669.17
Tax	83.08	171.29	218.09	171.83
PAT	224.26	484.59	625.63	497.34
NPM	1.50	2.83	3.50	5.44
ROE%	7.67	14.36	16.92	11.86
EPS	3.94	8.52	11.00	8.75
Eq Cap	568.52	568.52	568.52	568.52
Net Worth	2,924.92	3,373.76	3,698.18	4,194.42

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
<i>Company</i>	<i>10.00</i>	<i>11.00</i>	<i>--</i>	<i>16.92</i>	<i>65.05</i>
Peers					
Escorts Kubota Limited	10.00	96.80	43.21	11.43	830.45
Schaeffler India Limited	2.00	57.50	74.22	18.71	307.44
Sona BLW Precision Forgings Limited	10.00	8.83	76.93	18.49	47.75
Ramakrishna Forgings Limited	2.00	20.27	42.82	12.72	148.48
Happy Forgings Limited	2.00	26.78	47.08	15.07	171.17
Action Construction Equipment Limited	10.00	27.56	50.56	26.69	307.44



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