



IPO Report

06th Nov'23

Snapshot

Ask Automotive is the largest manufacturer of brake-shoe and advanced braking ("AB") systems for two-wheelers ("2W") in India with a market share of approximately 50% in Fiscal 2023 in terms of production volume for original equipment manufacturers ("OEMs") and the branded independent aftermarket ("IAM"), on a combined basis. Company have been supplying safety systems and critical engineering solutions for more than three decades with in-house designing, developing and manufacturing capabilities. Company's offerings are powertrain agnostic, catering to electric vehicle ("EV") as well as internal combustion engine ("ICE") OEMs. Company's brand "ASK" is recognised as the leading brand in the 2W IAM in terms of production volume for Fiscal 2023 in India

VALUATION

Company is bringing the issue at price band of Rs 268-282 per share at p/e multiple of 42x on post issue annualized Q1FY24 PAT basis. Company being well established manufacturer of safety systems and critical engineering solutions for some of India's largest original equipment manufacturers ("OEMs") has Robust production model driven by research and development ("R&D") and design has long-standing customer relationships with both Indian and global OEM player with Financial and return metrics demonstrating growth and efficient use of capital.

Hence, looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	268-282
Opening date of the issue	07th Nov '2023
Closing Date of the issue	09th Nov '2023
No of shares pre issue	212231034 Eq Shares
Issue Size	Rs 793-834 Cr
Offer For Sale	29571390 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	53

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 14785695 Eq Shares)
Non-Institutional	15% of the offer (Approx 4435708 Eq Shares)
Retail	35 % of the offer (Approx 10349987 Eq Shares)
Lead managers	Axis Capital, JM Financial, ICICI Securities, IIFL Securities
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Long-standing customer relationships with both Indian and global OEM players

Globally, company's customers include players such as Stanley Black & Decker, Polaris, and MTD Products. In India, company's customers include the top six 2W OEMs (in terms of production volume and value for Fiscal 2023). Company have been serving each of the top six 2W OEMs in India for more than 16 years as of June 30, 2023, and some of them since 1994. Company have been successful in developing customer relationships and supply to EV based 2W OEMs in India such as TVS, Ather, Hero MotoCorp, Greaves, Bajaj and Revolt.

Well established manufacturer of safety systems and critical engineering solutions for some of India's largest original equipment manufacturers ("OEMs")

Company supply its products to 2W OEMs in India, the largest motorized 2W market in the world, with domestic sales of 16.25 million units in Fiscal 2023. India is also among the largest exporters of 2Ws in the world. The 2W market constituted approximately 76% by production volume of the total Indian automotive market in Fiscal 2023, comprising 2Ws, 3Ws, PVs and CVs sectors. Company supplied its products to all of the top six 2W OEMs (in terms of production volume and value) in India during Fiscal 2023.

Financial and return metrics demonstrating growth and efficient use of capital

Company's revenue from operations has grown at a compound annual growth rate ("CAGR") of 28.64% between Fiscals 2021 and 2023 and by 8.74% from ₹6,037.35 million in the three months ended June 30, 2022 to ₹6,565.08 million in the three months ended June 30, 2023. Company's Return on Average Capital Employed ("RoACE") increased from 21.98% in Fiscal 2021 to 22.06% in Fiscal 2023 and from 4.63% in three months ended June 30, 2022 to 5.31% in three months ended June 30, 2023



COMPANY BACKGROUND

Company's in-house design and engineering capabilities enable it to deliver complex precision components and solutions with a focus on quality and have allowed it to diversify its business in both the automotive and non-automotive 199 sectors. Company commenced its operations in 1989 by manufacturing brake shoe products for 2Ws and have since diversified its operations to include offerings such as: (i) AB systems; (ii) aluminium lightweighting precision ("ALP") solutions, where company is a prominent player for 2W OEMs in India with a market share of 9% in Fiscal 2023 in terms of production volume (iii) wheel assembly to 2W OEMs; and (iv) safety control cables ("SCC") products. Company supply its portfolio of AB systems, ALP solutions, wheel assembly, and SCC products to OEMs in (i) the automotive sector for 2Ws, three wheelers ("3Ws"), passenger vehicles ("PVs") and commercial vehicles ("CVs"), and (ii) the non-automotive sector for all-terrain vehicles ("ATVs"), power tools and outdoor equipment.

Braking systems and SCC are considered critical for road safety, requiring technological knowhow and R&D to develop effective and economical products. Furthermore, braking products have high entry barriers because they are developed using proprietary material formulations and manufacturing knowhow. SCC are important parts in the automotive industry, used in motorcycles, scooters, mopeds and 2W EVs to actuate, control and operate critical applications including brake, accelerator, clutch, transmission gear, speedometer, fuel lid, seat lock, choke and battery charging lid. ALP solutions and products improve performance, safety and efficiency by reducing the weight of components, and assisting in thermal management, thereby increasing durability. Precision aluminium alloy parts are a critical requirement of the industry, and they are also environmentally friendly and meet end-of-life compliance standards for vehicles. Company supply its products to all of the top six 2W OEMs (in terms of production volume and value in Fiscal 2023) in India, the largest motorized 2W market in the world, with domestic sales of 16.25 million units during Fiscal 2023 (Source: CRISIL Report). In Fiscal 2022, company commenced commercial supplies to 2W EV OEMs in India, including TVS Motor Company Limited ("TVS"), Ather Energy Private Limited ("Ather"), Hero MotoCorp Limited ("Hero MotoCorp"), Greaves Electric Mobility Private Limited ("Greaves"), Bajaj Auto Limited ("Bajaj") and Revolt Intellicorp Private Limited ("Revolt").

In addition to company's customers in India, company also increasingly caters to customers overseas, both in the automotive and non-automotive sectors through export of AB systems and ALP solutions. Automotive customers outside India include UFI Filters India Private Limited ("UFI Filters"), Federal-Mogul Italy s.r.l. – racing & motorcycle division ("Federal-Mogul"), and FDP Virginia Inc., and company's non-automotive customers outside India include Stanley Black & Decker, Polaris Industries Inc. ("Polaris") and MTD Products Inc. ("MTD Products"). As of June 30, 2023, company operated 15 manufacturing facilities across five states in India, majority of which are strategically located in close proximity to company's OEM customers. Company recently commenced commercial manufacturing operations at company's 16th manufacturing facility in Bhiwadi (Rajasthan) in July 2023. Company have also been allotted land in Kolar, Karnataka from the relevant regulatory authority, on which company propose to develop a manufacturing facility. In addition, company's Joint Venture operates one manufacturing facility in Gurugram, Haryana.

Company have entered into technology licensing arrangements with global companies as follows: (i) a Japanese manufacturer of asbestos-free brake shoes supplying to 2W manufacturers globally; (ii) NUCAP Industries Inc., Canada ("NUCAP") – a global player in patented retention systems (mechanical bonding) for disc brake pads in the 2W, PV and CV sectors; and (iii) Safety Control Cable Ind. Co. Limited ("HSH") – a SCC manufacturer serving automobile OEMs globally. Company also have a license agreement with a research organisation in the defence sector, pursuant to which company have licensed a semi-solid metal processing technology for Aluminium casting for company's ALP solutions.

Additionally, company's Joint Venture AFFPL supplies AB products to the global and Indian IAM for CVs. Its products have recently been approved by two CV OEMs in India and supplies have commenced.

Company is led by its Promoter, Chairman and Managing Director, Mr. Kuldip Singh Rathee, a first generation entrepreneur who with his experience of more than three decades, has guided company to its current market position in the automotive components industry.



INVESTMENT RATIONALE

<p><i>Robust production model driven by research and development (“R&D”) and design with an emphasis on: (i) advanced material knowledge to customize systems and products based on customer specifications and (ii) engineering lighter precision products</i></p>	<p>Company have R&D, engineering and technological capabilities to offer future-ready solutions and customized solutions to cater to company’s customers’ needs. Company have undertaken several R&D driven initiatives, including engaging closely with its customers to develop products manufactured for company’s AB systems, as well as lightweighting solutions for products under company’s ALP solutions, enabling its customers to capitalize on market growth trends. Company’s R&D capabilities for AB systems include developing proprietary formulations using advanced material engineering, and customizing the manufacturing process to meet various parameters as specified by its customers. Company develop proprietary formulations through its advanced material engineering and its in-house R&D, design and manufacturing capability. The precision engineering capabilities of company’s design and R&D teams have enabled it to develop and deploy lightweighting and thermal management solutions across automotive and nonautomotive sectors, which help provide company with a competitive advantage in terms of quality, cost and delivery (“QCD”) parameters. As of June 30, 2023, company’s total staff (i.e., workforce excluding shop-floor personnel) comprised 365 engineering graduates of which 76 were full-time employees of its R&D and engineering department, which represented 5.84% of its staff and 20.82% of the engineers employed as part of company’s staff. Company’s R&D efforts are focussed on developing new formulations to address the changing ESG and safety standards. As of June 30, 2023, company had a portfolio of 52 proprietary formulations (out of which seven had been licensed to company) that company use in the production of AB systems for 2Ws, 3Ws, PVs and CVs, meeting stringent safety, durability and performance specifications of EV and ICE OEMs.</p>
<p><i>Technology and innovation-driven manufacturing process, with an extensive suite of systems and solutions for EV and ICE sectors</i></p>	<p>Technology and innovation play a critical role in the development of company’s safety systems and critical engineering solutions. Company engage in ongoing R&D and design activities to develop and offer innovative and customized systems and solutions that meet company’s customers’ requirements in both the EV and ICE sectors. Furthermore, company have a demonstrated track record of developing technologically advanced products as per the requirements of its customers. Company’s technology and innovation focus also complements its manufacturing capabilities. Company have introduced automation in company’s manufacturing processes that allows it to combine operations, eliminate multiple operators, retain control over company’s proprietary formulations and increase efficiency, while controlling costs and maintaining consistent product quality.</p>
<p><i>Professional management and board</i></p>	<p>Company is led by its Promoter, Chairman and Managing Director, Mr. Kuldip Singh Rathee, a first-generation entrepreneur who established the business in 1988 and has more than three decades of experience in the automotive industry. Company’s experienced Board of Directors, Key Managerial Personnel and members of Senior Management comprise professionals with knowledge, understanding and experience in the automotive industry. Furthermore, Mr. Rathee is supported by company’s Whole-Time Directors Mr. Prashant Rathee and Mr. Aman Rathee. With experience in the manufacturing sector, Mr. Prashant Rathee is responsible for the operations vertical at Company. Mr. Aman Rathee is also experienced in the manufacturing sector in the automotive and nonautomotive industries and leads the R&D and marketing verticals at Company. Company’s Promoters and certain of its Key Management Personnel and members of Senior Management have been with company for more than 10 years, demonstrating continuity and commitment in company’s leadership.</p>



OBJECTS OF OFFER

The objects of the Offer are to carry out the Offer for Sale of up to 29,571,390 Equity Shares by the Promoter Selling Shareholders and to achieve the benefits of listing the Equity Shares on the Stock Exchanges.

RISKS

A significant portion (more than 80%) of its revenue from operations in each of the last three Fiscals, the three months ended June 30, 2023 and June 30, 2022 is attributable to the Indian two-wheeler automotive sector. Any adverse changes in the two-wheeler automotive sector could adversely impact company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Market sizing and outlook on specific auto components

Overview of the auto component segments

The specific auto component segment includes advanced braking systems, aluminium light weighting precision solutions and safety control cables.

The advanced braking systems segment includes brake panel assembly, brake shoe, disc brake pad ("DBP"), brake lining, and mission case.

The aluminium light weighting solutions segment can be further segmented into various divisions including engine parts, body and chassis parts, transmission parts, electrical and electronic parts, and EV-specific components. The engine parts division includes crankcase, crankcase cover, filter housing, cylinder block, throttle body, and engine cover. The body and chassis division includes pillion grip, footrest, holder, speedometer housing, wiper housing, and hub. The transmission division includes flange final driven. The electrical and electronic division includes ECU plate and ECU heat sink. The EV-specific division includes wheel pulley, motor housing and battery housing.

The safety control cables segment includes choke cable, clutch cable, front brake cable, rear brake cable, speedometer cable, throttle cable, seat lock cable and fuel cable.

Advanced braking systems

The braking system is one of the most critical parts in a vehicle considering the safety involved. Braking solutions are increasing in importance and complexity with vehicle speed increasing given more powerful vehicles being introduced along with development in road infrastructure. Concurrently, the growing safety standards have also made these improvements essential. An effective braking system is needed to accomplish the task of stopping the vehicles at higher speeds while also ensuring higher life and lower noise. Current generation vehicles use disc brakes and drum brakes or a combination of the two to accomplish this task. In the case of 2Ws and CVs, drum brakes constitute the majority of the application whereas disc brakes are prevailing in PVs. The growing need of safety systems in automobiles will increase demand for efficient automotive brake components such as, brake shoes, brake pads, brake liners, brake calipers and brake panel assembly.

On a traditional braking system using only disc and/or drum, the energy is lost in the form of heat during braking. Many EVs and hybrid vehicles have regenerative braking systems where a part of energy typically lost in the traditional friction braking system when slowing down a vehicle can be recovered and stored in batteries in the vehicle to be used later. The system wastes less energy than it would with friction braking. Such a braking system offers less wear and tear on the brakes, extending the life of braking systems. Even though regenerative braking is available, EVs and hybrids are equipped with conventional brakes which must meet the same stringent criteria required of a safety system in traditional ICE vehicles. Also, during hard braking the disc and/or drum brakes play a critical role in stopping power of a vehicle. Braking being a critical component of automotive systems due to their importance to road safety, have high entry barriers as these components are developed using proprietary material formulations, require technological prowess, manufacturing knowhow and R&D to develop products that are effective and economical. The materials used for producing the abrasive braking material such as brake linings used in brake shoes and brake pads have evolved over time from simpler asbestos-based materials to high-tech products made of semi-metallic, steel, and ceramic products for high end vehicles. The auto-components industry is capital-intensive in nature, coupled with heavy dependence on complex technology, machinery and systems make it difficult for new entrants to encroach upon, due to its high entry barriers. General competitive factors in the market, which may affect the level of competition over the short and medium term, include vulnerability to overall macroeconomic factors, time to market for new products, product features, safety, design, quality, price, and relationships between producers and their customers.

Given their criticality to automotive systems, a high level of accuracy and adherence to high safety standards is also required. This necessitates coordination between component manufacturers and OEMs throughout the product cycle from design to testing, validation to delivery. As a result, OEMs typically have an extensive and detailed vendor approval process and generally have long gestation periods to onboard a new supplier. The significant time and effort in the approval process results in OEMs typically preferring not to switch vendors unless there have been specific quality and cost issues.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	15439.92	20130.83	25551.67	6565.08
Total Expenditure (B)	13576.55	18419.92	23187.34	5928.02
EBIDTA	1863.37	1710.91	2364.33	637.06
EBIDTA Margin	12.07	8.50	9.25	9.70
Other Income	237.75	111.77	111.12	10.38
Depreciation	518.93	559.10	607.05	149.64
EBIT	1582.19	1263.58	1868.40	497.80
Interest	108.51	80.82	111.90	43.50
PBT	1473.68	1182.76	1756.50	454.30
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	1473.68	1182.76	1756.50	454.30
Share of profit in associate	-44.07	-52.75	-58.92	22.07
PBT	1429.61	1130.01	1697.58	476.37
Tax	367.60	303.32	468.05	128.08
PAT	1062.01	826.69	1229.53	348.29
NPM	6.88	4.11	4.81	5.31
ROE %	17.07	13.08	19.10	5.13
EPS	5.22	4.09	6.18	1.77
Eq Cap	406.89	401.79	394.29	394.29
Net Worth	6,222.25	6,319.08	6,437.71	6,784.61

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Ask Automotive Limited</i>	<i>2</i>		<i>25551.67</i>	<i>6.18</i>	<i>32.66</i>	<i>19.10</i>
Peers						
Endurance Technologies Limited	10	46.36	88040.46	34.09	313.67	10.87
Uno Minda Limited	2	52.59	112364.90	11.37	72.53`	15.73
Suprajit Engineering Limited	1	35.49	27523.55	`10.98`	88.48	12.42
Bharat Forge Limited	2	98.86	129102.59	11.35	144.02	7.88

(Source: RHP)



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