CARRARO INDIA LIMITED

December 19, 2024

CARRARO India

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Auto Ancillaries
Offer for sale (Shares)	17,755,680
Net Offer to the Public	**17,755,680**
Issue Size (Rs. Cr.)	1186-1250
Price Band (Rs.)	668-704
Offer Date	20-Dec-24
Close Date	24-Dec-24
Face Value	10
Lot Size	21 Shares

Issue Composition

	In shares
Total Issue for Sale	17,755,680
QIB	8,877,840
NIB	2,663,352
Retail	6,214,488

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	68.77%
QIB	0.00%	15.62%
NIB	0.00%	4.68%
Retail	0.00%	10.93%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company will not receive any proceeds from the Offer and all the Offer Proceeds will be received by the Promoter Selling Shareholder after deduction of Offer related expenses and relevant taxes thereon, to be borne by the Promoter Selling Shareholder.

Book Running Lead Manager

- Axis Capital Limited
- BNP Paribas
- Nuvama Wealth Management Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1997, Carraro India Ltd is engaging in manufacturing components ranging from the smallest gear to complete tractor manufacturing. The company designs, manufactures, and sells transmission systems (axles, transmissions, and drives) primarily for agricultural and construction equipment for off-highway vehicles. It also offers a wide range of gears for various sectors, including automotive, trucks agricultural, and construction vehicles. The company owns and operates two manufacturing plants in Pune, Maharashtra, India. The driveline manufacturing plant occupies a plot area of approximately 84,000 square meters, while the gear manufacturing plant covers an area of approximately 78,000 square meters. The driveline plant has technologies including casting, machining, assembly, prototyping, testing, and painting. The gears plant features machining and heat treatment technologies such as carburizing, induction, hardening, and nitriding. The company manufactures axles and transmission systems for agricultural tractors which include special requirements on technical specifications, use cases, and mechanical and structural design. The company manufactures gears and transmission systems for backhoe loaders, compact wheel loaders, telehandlers, cranes, forklifts, aerial working platforms, etc. The company manufactures a diverse range of products beyond their core offerings of axles and transmissions for agricultural and construction equipment, which include additional products such as gears, shafts, and ring gears for industrial and automotive vehicles. The company has developed expertise in the agricultural tractor and construction vehicle industry in India and has established a network of 220 suppliers across eight states in India, along with 58 suppliers internationally.

Strength

Leading Manufacturer of Transmission Systems: Carraro India, a Tier-1 supplier of driveline components, specializes in axles and transmissions for India's agricultural and construction vehicle sectors. The company has established itself as a leader in the market, providing transmission systems for tractors with power ratings up to 150HP and wheel drive capabilities. By leveraging an early-mover advantage, robust customer relationships, and a diversified, reliable product portfolio, Carraro India has built a strong competitive position as a Tier-1 solution provider. Its mission-critical axles and transmission systems form essential components of its customers' final products, underlining the company's pivotal role in the value chain.

Customer-Centric Solutions for a Longstanding OEM Base: Carraro India's products serve as indispensable components for OEMs, offering customized, end-to-end solutions—from R&D to manufacturing—for domestic and international customers operating in India. The company continuously identifies and fulfills emerging customer needs through comprehensive planning, product development, and maintenance services. A noteworthy example is the modified backhoe loader driveline (Transmission TCB80) introduced in 2016. This innovation, featuring two rigid axles per vehicle, provided a cost-efficient alternative to traditional bogie axles. Following extensive R&D, prototyping, and field validation, Carraro India began supplying axles and transmissions to Mahindra for the RoadMaster G75 (since 2019) and G90 Smart (since 2016). The company's offerings—such as TCB80 transmissions (2WD, 4WD, SPS) and rigid/rear/front steering axles—also play a critical role in Bull Machines' backhoe loaders. As of September 30, 2024, Carraro India caters to 38 domestic customers and supplies internationally through

Carraro Drive Tech Italia S.p.A. Revenue distribution for the six months ending September 30, 2024, stood at 65.40% domestic and 34.60% international, with similar trends for Fiscal 2024.

Longstanding Supplier Relationships: Carraro India works with 220 domestic suppliers across eight Indian states and 58 international suppliers. Its sourcing strategy focuses on dual sourcing to mitigate risks and maintain cost efficiency, with 74.42% of materials procured domestically for the six months ending September 30, 2024. Components sourced include bearings, castings, brakes, and hydraulic rear lifts. Suppliers are selected based on quality, cost, delivery, and development (QCDD) metrics, and Carraro India maintains long-term contracts with capacity agreements and year-on-year discounts.

Strong R&D Capabilities with Proprietary IP: Carraro India's R&D capabilities have been strengthened by its acquisition of CTIPL in June 2024, which added an ISO 9001-accredited R&D center in Pune. This acquisition enhanced the company's ability to integrate design, R&D, and manufacturing, boosting its competitive position. The company holds exclusive global rights to certain IP, enabling innovative product development, such as the E-trans agricultural transmission system. Carraro India focuses on developing future-ready products to keep pace with evolving market demands.

Technologically Advanced Manufacturing Facilities: Carraro India operates two ISO-certified plants in Pune:

- **Driveline Manufacturing Plant (84,000 sq. m.):** Produces agricultural and construction equipment, axles, and transmissions using advanced casting, assembly, prototyping, and painting technologies.
- **Gears Manufacturing Plant (78,000 sq. m.):** Manufactures gears and gear shafts, employing advanced machining and heat treatment technologies like carburizing, induction hardening, and nitriding.

The proximity of the plants facilitates seamless integration, reducing lead times and enhancing scalability to meet customer demands.

Experienced Management Team: Carraro India's senior management boasts an average tenure of over 11.3 years, reflecting stability and expertise. Key leaders include Vice President Tomaso Carraro, Managing Director Balaji Gopalan, and COO Sudhendra Mannikar, all of whom have driven business growth and innovation. The management's extensive industry knowledge has enabled the company to expand its product portfolio, penetrate new markets, and achieve sustainable margin growth.

Strategy

Strengthening Market Position in Axles and Transmission Systems: Carraro India has strategically positioned itself as a leader in the axles and transmission systems market, focusing on sustainable growth, innovation, and operational excellence. As of 2023, according to the Markets and Markets Report, the company holds a dominant position with a 60-65% share in the non-captive construction vehicle transmission market and is the sole supplier in the non-captive agricultural tractor transmission segment. The company continues to lead in drivelines for backhoe loaders, soil compactors, agricultural transmission systems, and 4WD axles for tractors. To sustain its market leadership, Carraro India has introduced the Industrial Design Cost Optimization function, a cross-functional team comprising R&D, sourcing, sales, and engineering units. This initiative enables the company to streamline design processes, reduce costs, and increase reliance on domestic suppliers. The aim is to optimize supply chain logistics, minimize lead times, and maintain stringent quality standards. These efforts align with the ongoing market shift driven by the introduction of TREM-IV and TREM-V regulations, which have increased demand for 4WD tractors and higher HP agricultural machinery. By offering cost-efficient, high-quality solutions tailored to these trends,

Carraro India is poised to expand its market share in the growing 4WD tractor segment.

Driving Growth Through Product Innovation and Expansion: Carraro India aims to fuel growth by introducing new products and leveraging its expertise to innovate across product applications. The company is currently pursuing 16 tractor driveline projects in the agricultural sector (40 HP to 135 HP tractors) and 11 construction vehicle projects targeting backhoe loaders, telehandlers, soil compactors, and wheel loaders. Additionally, Carraro India is exploring new segments, such as self-loading concrete mixers and mobile cranes, with specialized drivelines to meet emerging market needs.The company's success in product application innovation—evident in its backhoe loader drivelines adapted for motor graders under 100 HP and chassis-based haulage tractors—demonstrates its ability to address market gaps. By leveraging R&D capabilities and advanced technologies from the Carraro Group, the company aims to further expand its product range and market penetration, ensuring long-term growth.

Future-Ready Technologies for Emerging Markets: As an innovation-driven company, Carraro India is committed to developing future-ready solutions that align with evolving market demands. Key initiatives include:

- **Electric Off-Highway Vehicles:** Leveraging Carraro Group's expertise in electric vehicle technologies, including "THE" (Transmission-Hydrostatic-Electric) solutions for 40-75 HP electric tractors.
- **Higher HP Transmission Systems:** Addressing the growing demand for higher HP tractors with optimized designs, compatible with emission norms and suitable for export markets.
- **Advanced 4x4 Axles:** Developing independent front axle systems and specialized capabilities for off-road vehicles like Grenadiers.

These innovations position Carraro India as a forward-thinking player in the agricultural and construction vehicle markets, ready to capitalize on the rising adoption of electric and higher HP machinery.

Expanding Production Capabilities in India: Carraro India operates two manufacturing facilities in Pune, Maharashtra, with substantial room for expansion:

- **Driveline Plant:** Spanning approximately 84,000 square meters, focusing on agricultural and construction equipment.
- **Gear Plant:** Covering 78,000 square meters, with advanced heat treatment and machining technologies.

The company plans to expand its driveline plant by building a warehouse and finished goods facility on a 5,100-square-meter vacant plot, incorporating automation, robotics, and sustainable practices to enhance production efficiency. Digitalizing its production flow is a priority, enabling real-time tracking and centralized reporting to improve quality assurance and scalability.

Localization and Supply Chain Optimization: Carraro India continues to emphasize local sourcing to reduce production costs and improve supply chain efficiency. In the six months ending September 30, 2024, 74.42% of the company's material costs were attributed to domestic suppliers, with the remaining 25.58% from imports. The company aims to further localize its supplier base while vertically integrating the production of critical gearbox components to enhance cost control and quality assurance. By developing strategic partnerships and investing in automation, Carraro India is optimizing its supply chain to support long-term growth while minimizing risks associated with supplier dependency.

Commitment to Sustainable Growth: Carraro India's growth strategy is firmly anchored in innovation, market responsiveness, and operational excellence. With robust R&D capabilities, strategic expansion into emerging markets, and a strong emphasis on sustainability, the company is well-positioned to maintain its market leadership and deliver long-term value to its customers and stakeholders.

Risk factor

- Heavy customer concentration: Top 5 and 10 customers account for 69.55% and 87.88% of revenue (6M, FY2024).
- Dependence on Carraro Group entities for operations, including brand licensing and customer sourcing.
- Seasonal fluctuations in agricultural tractor sales, impacting quarterly financial performance.
- Market dependence: Tractor and construction vehicle markets drive 86.34% of revenue from product sectors (Fiscal 2024).

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Escorts Kubota	9742.03	1161.78	103.84	32.37	3.82	879.25	10	3360.95	37601.55
Schaeffler India	7970.87	911.19	58.51	57.77	10.86	311.33	2	3380.15	52832.99
Sona BLW Precis.	3479.30	567.29	9.26	66.03	7.26	84.17	10	611.45	37997.68
Ramkrishna Forg.	4094.16	451.38	20.33	44.34	5.54	162.58	2	901.40	16309.93
Happy Forgings	1387.93	258.85	27.48	37.73	5.71	181.62	2	1036.90	9768.10
Action Const.Eq.	3079.90	365.67	30.71	48.94	12.93	116.19	2	1502.85	17896.42
CARRARO INDIA LIMITED	1742.55	87.36	15.37	45.82	9.54	73.80	10	704.00	4002.35

***Peer companies financials are TTM based**
**** CARRARO INDIA LIMITED financials are based on TTM**

Valuation

Considering the P/E valuation on the upper price band of Rs.704, TTM EPS and P/E are Rs.15.37 and 45.82 multiple respectively and at a lower price band of Rs. 668, P/E multiple is 43.47. Looking at the P/B ratio on the upper price band of Rs.668, book value and P/B are Rs. 73.80 and 9.54 multiple respectively and at a lower price band of Rs. 668 P/B multiple is 9.05. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

According to Markets and Markets, the global and Indian off-highway markets encompass construction vehicles and agricultural equipment (including tractors) segments. Global sales of construction vehicles and agricultural tractors are projected to increase from 3,560,000 units in CY2023 to 4,640,000 units by CY2029. According to Markets and Markets, the agricultural tractors volume in India grew at CAGR of 5.9% from 804,000 units in CY2019 to 1,011,700 units in CY2023. The sales volume of construction vehicles in India increased at CAGR of 4.2% from 92,500 units in CY2019 to 109,000 units in CY2023 and is expected to grow at CAGR of 5.0% from CY2024 to Cy2029.

Outlook

Carraro India Ltd is a leading tier 1 supplier of transmission systems and axles in India's agricultural tractor and construction vehicle industries. The company boasts a competitive edge in complex driveline components, strong R&D capabilities, and proprietary IP rights. However, it relies partially on the Carraro Group for operations and faces seasonal fluctuations in agricultural tractor sales, which may impact financial performance. It is suitable for long-term investors.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	20-December-24
BID/ISSUE CLOSES ON	24-December-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	26-December-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	27-December-24
Credit of Equity Shares to Demat Accounts of Allottees	27-December-24
Commencement of trading of the Equity Shares on the Stock Exchanges	30-December-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sept-24 (6 Months)	Period ended 31-Mar-24 (12 Months)	Period ended 31-Mar-23 (12 Months)
Revenue from operations	914.62	1788.97	1713.15
Total expenditure	821.64	1689.99	1602.09
Operating Profit	**92.98**	**98.97**	**111.06**
OPM%	10.17	5.53	6.48
Other Income	8.12	17.58	20.15
PBDIT	**101.10**	**116.55**	**131.21**
Depreciation	22.29	21.05	43.14
PBIT	**78.81**	**95.50**	**88.07**
Interest	11.89	11.13	22.49
Profit Before Tax	**66.92**	**84.37**	**65.59**
Tax	17.18	21.81	17.13
PAT	**49.73**	**62.56**	**48.46**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sept-24	As on 31-Mar-24	As on 31-Mar-23
Non-current assets			
Property, plant and equipment	305.54	311.72	287.47
Right-of-use assets	27.18	13.74	14.97
Capital work-in-progress	0.31	0.00	9.06
Intangible assets	27.39	28.97	4.15
Financial Assets			
Other non-current financial assets	5.02	4.77	3.87
Deferred tax assets	3.61	3.45	1.17
Non-current tax assets	32.47	31.97	31.38
Other non-current assets	13.29	7.34	3.86
Total Non Current Assets	**414.81**	**401.95**	**355.92**
Current assets			
Inventories	290.99	286.45	255.30
Financial Assets			
Investments	0.00	0.00	0.00
Trade Receivables	255.62	242.72	303.39
Cash and cash equivalents	97.00	103.60	104.99
Other current finanicial assets	9.55	0.00	0.00
Other current assets	25.44	38.18	52.79
Total current assets	**678.60**	**670.94**	**716.47**
Total Assets	**1093.41**	**1072.89**	**1072.39**
Non-current liabilities			
Financial liabilities			
Borrowings	151.01	122.32	130.82
Lease liabilities	14.27	1.30	2.42
Provisions	47.56	47.38	46.30
Deferred tax liabilities	0.00	0.00	0.00
Total non-current liabilities	**212.83**	**171.00**	**179.54**
Current liabilities			
Financial liabilities			
Borrowings	44.77	90.23	57.52
Lease liabilities	1.73	1.13	1.00
Trade payables - MSME	40.57	49.30	58.93
Trade payables - other than MSME	315.97	316.20	369.16
Other financial liabilities	5.48	29.39	27.61
Other Current Liabilities	11.40	13.67	16.73
Provisions	30.48	32.05	21.59
Current tax liabilities (net)	10.65	0.03	2.79
Total current liabilities	**461.04**	**531.98**	**555.32**
Total	**673.87**	**702.98**	**734.86**
Net worth represented by:			
Equity Share Capital	56.85	56.85	56.85
Other equity	362.59	312.97	280.52
Non-controlling interest	0.10	0.09	0.16
Net Worth	**419.54**	**369.91**	**337.53**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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