

VARROC ENGINEERING LTD

SUBSCRIBE

IPO Details

Issue Date	26 th June-28 th June 2018
Price Band	965-967/Share
Bid Lot	15 & in multiple thereof
Face Value	Rs 1/Share
Listing	BSE, NSE
Offer For Sale	20,121,730 Eq Shares
Fresh Issue	----
Pre Issue Eq Shares	134,811,530 Eq Shares
Post Issue Eq Shares	134,811,530 Eq shares
BRLM	Kotak Mahindra Capital , Citigroup Global Markets India Private Ltd, Credit Suisse Securities(India), IIFL Holdings Ltd
Registrar	Link Intime India Private Ltd

Co is a global tier-1 (tier-1 companies are companies that directly supply to original equipment manufacturers ("OEMs")) automotive component group. Co design, manufacture and supply exterior lighting systems, plastic and polymer components, electricals-electronics components, and precision metallic components to passenger car, commercial vehicle, two-wheeler, three-wheeler and off highway vehicle ("OHV") OEMs directly worldwide. Co is the second largest Indian auto component group (by consolidated revenue for FY2017) and a leading tier-1 manufacturer and supplier to Indian two-wheeler and three-wheeler OEMs (by consolidated revenue for FY2017).

Strong competitive position in attractive growing markets

Co's Global Lighting Business, which focuses on the design, manufacture and supply of exterior lighting for passenger vehicles, is the sixth-largest tier-1 automotive exterior lighting manufacturer globally and one of the top three independent exterior lighting players (by market share in 2016). Globally, the exterior lighting market for passenger vehicles has grown at a CAGR of 4.5% between 2011 and 2016 in terms of revenue, outpacing the CAGR of 3.8% in the overall market for passenger vehicles for the same period. In India Business, company is the second largest Indian auto component group (by consolidated revenue for FY2017) and a leading tier-1 manufacturer and supplier to Indian two-wheeler and three-wheeler OEMs (by consolidated revenue for FY2017).

Comprehensive product portfolio

Co's Global Lighting Business has a broad portfolio of lighting technologies, including Halogen, Xenon/high-intensity discharge, LED, Matrix LED, high definition MEMS and DMD, surface LED and OLED module, Flex LED and LED Pixel headlamp, covering the five automotive external lighting product lines. Co's India Business offers a diverse range of products catering to two-wheelers, three-wheelers, passenger vehicles, commercial vehicles and offhighway vehicles across its business segments of polymers/plastics, electrical-electronics and precision metallic components.

Valuation

The co is bringing the issue at p/e multiple of approx. 29 on FY18 eps at price band of Rs 965-967/share. Co has strong competitive position in attractive growing markets has long-standing customer relationship with low cost, strategically located manufacturing and design footprint. Also, company has consistent track record of growth and operational and financial efficiency. Hence, looking after all above, we recommend "Subscribe" on issue.

Company Overview

Company is a global tier-1 (tier-1 companies are companies that directly supply to original equipment manufacturers ("OEMs")) automotive component group. Co design, manufacture and supply exterior lighting systems, plastic and polymer components, electricals-electronics components, and precision metallic components to passenger car, commercial vehicle, two-wheeler, three-wheeler and off highway vehicle ("OHV") OEMs directly worldwide. Co is the second largest Indian auto component group (by consolidated revenue for FY2017) and a leading tier-1 manufacturer and supplier to Indian two-wheeler and three-wheeler OEMs (by consolidated revenue for FY2017). Co is the sixth-largest global exterior automotive lighting manufacturer and one of the top three independent exterior lighting players (by market share in 2016) From FY2016 to FY2018 co had a compound annual growth rate ("CAGR") of 12.37% in terms of revenue. Company continue to expand its manufacturing and R&D footprint, and it is in the process of setting up one manufacturing facility in Brazil and one manufacturing facility in Morocco and intend to set up two manufacturing facilities in India. Co have end-to-end capabilities across design, R&D, engineering, testing, manufacturing and supply of various products across its business. Co have two primary business lines, namely (i) the design, manufacture and supply of exterior lighting systems to passenger cars OEMs worldwide (its "**Global Lighting Business**"), which co undertake through its subsidiaries forming part of the VLS group and (ii) the design, manufacture and supply of a wide range of auto components in India (co's "**India Business**"), primarily to two-wheeler and three-wheeler OEMs, including exports. Co's India Business offers a diversified set of products across three product lines, namely polymers/plastics, electrical/electronics and metallic components. In addition, co have other smaller businesses, which include the design, manufacture and supply of two-wheeler lighting to global OEMs, and under carriage forged machine components for OHVs and drill bits for the oil and gas sector. Co have a global footprint of 36 manufacturing facilities spread across seven countries, with six facilities for its Global Lighting Business, 25 for its India Business and five for its Other Businesses.



Investment Rationale

Strong, long-standing customer relationships

Company have strong, long-standing relationships with many of its customers. For example, in co's Global Lighting Business, company had a relationship with a large British car manufacturer since 2006. In its Indian Business, co's longest-standing relationship is with Bajaj, who has been co's customer since 1990 and whom co supply a wide variety of components. Co's relationships with seven of its top 10 customers have lasted longer than 10 years. While co have many key customers who have been with co for a long time, co nevertheless have a diversified customer base and continue to add new customers, such as Renault-Nissan- Mitsubishi, Volvo, a Spanish automobile manufacturer and a German automobile manufacturer. Newly added customers for FY2018 and FY2019 include Dell'Orto S.p.A and Tata Cummins. Co's Global Lighting Business' customers include marquee auto manufacturers across the premium, midrange and mass market pricing spectrum, including Ford, Jaguar Land Rover, FCA, Groupe PSA, the VW Group, a European multinational car manufacturer and an American electric car manufacturer.

Low cost, strategically located manufacturing and design footprint

Co have a global footprint of 36 manufacturing facilities spread across seven countries, with six facilities for its Global Lighting Business, 25 for its India Business and five for its Other Businesses. Given its global presence, co's revenue stream is diversified both geographically as well as across customers. In FY2018, co's largest customer contributed 18.6% of co's total invoiced amounts (17.0% in FY2017) and co's top five customers contributed 59.9% of its total invoiced amounts (64.5% in FY2017).

Risk factors

Co is dependent on certain major customers, especially Bajaj, Honda, Royal Enfield and Yamaha India in India and Ford, Jaguar Land Rover, Fiat Chrysler Automobiles ("FCA"), Groupe PSA, an American electric car manufacturer and a European multinational car manufacturer for its VLS business. Sales to these major customers in India (based on the total invoiced amounts) represented 28.8%, 24.8% and 27.2% of its total invoicing for FY2016, FY2017 and FY2018, respectively, and sales to co's top six customers for VLS represented 48.6%, 54.6% and 50.7% of co's total invoicing for FY2016, FY2017 and FY2018, respectively. Since company is significantly dependent on certain key customers for a significant portion of its sales, the loss of any one of co's key customers, a significant reduction in demand from such customers or the downturn in business by such customers could have an adverse effect on co's business, results of operations and financial condition.



Objects of Offer

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and to carry out the Offer for Sale by Selling Shareholders. Further, Company expects that listing of the Equity Shares will enhance co's visibility and brand image and provide liquidity to its Shareholders. The listing will also provide a public market for the Equity Shares in India. Company will not receive any proceeds from the Offer and all the proceeds will be received by the Selling Shareholders, in proportion to the Equity Shares offered by the respective Selling Shareholders as part of the Offer.

Financial Statements

Rs Cr

Particulars	FY15	FY16	FY17	FY18
Total Income	6950.77	8218.90	9608.54	10378.50
Operating Exp	6333.89	7647.96	9026.79	9500.89
EBIDTA	616.88	570.94	581.76	877.57
EBIDTA Margin (%)	8.87	6.95	6.05	8.46
Other Income	87.69	20.62	93.73	38.61
Depreciation	253.97	292.25	337.08	386.46
EBIT	450.60	299.32	338.40	529.71
Interest	475.48	-42.65	90.40	86.17
PBT	-24.88	341.97	248.01	443.54
E/O Item	88.23	49.83	79.19	69.03
PBT After E/O Item	63.35	391.80	327.19	512.57
Tax	46.54	21.97	23.80	61.79
PAT	16.81	369.82	303.89	450.78
Other Comp Inc	0.00	0.00	0.00	0.00
Adjusted PAT	16.81	369.82	303.89	450.78
NPM(%)	0.24	4.50	3.16	4.34
Eq Capital	9.61	26.24	13.48	13.48
Res & Surplus	1072.88	1736.64	2171.89	2814.52
Non Con Int	21.45	20.28	20.16	20.77
Net Worth	1103.94	1783.16	2205.53	2848.77
Eq Shares (In No)	9.61	26.24	13.48	13.48
EPS	1.75	14.10	22.50	33.44
ROE (%)	1.52	20.74	13.76	15.82
ROCE (%)	-1.30	11.47	6.97	11.58
Book Value	114.83	67.96	163.60	211.32

www.hemsecurities.com

research@hemsecurities.com

HEM SECURITIES LIMITED

MEMBER-BSE,CDSE,SEBI REGISTERED CATEGORY I MERCHANT BANKER

Sebi Registration No For Research Analyst: INH100002250

MUMBAI OFFICE: 904, A WING, 9TH FLOOR, NAMAN MIDTOWN, SENAPATI BAPAT MARG, ELPHINSTONE ROAD, LOWER PAREL, MUMBAI - 400013
PHONE- 0091 22 49060000 FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001 PHONE- 0091 141 405 1000 FAX- 0091 141 510 1757

GROUP COMPANIES

HEM FINLEASE PRIVATE LIMITED

MEMBER-NSE

HEM MULTI COMMODITIES PRIVATE LIMITED

MEMBER-NCDEX, MCX

HEM FINANCIAL SERVICES LIMITED

NBFC REGISTERED WITH RBI

Disclaimer & Disclosure: This document is prepared for our clients only, on the basis of publicly available information and other sources believed to be reliable. Whilst we are not soliciting any action based on this information, all care has been taken to ensure that the facts are accurate, fair and reasonable. This information is not intended as an offer or solicitation for the purchase or sell of any financial instrument and at any point should not be considered as an investment advice. Reader is requested to rely on his own decision and may take independent professional advice before investing. Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited, Directors and any of its employees shall not be responsible for the content. The person accessing this information specifically agrees to exempt Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and further agrees to hold Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The companies and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities there of, company (ies) mentioned herein and the same have acted upon or used the information prior to, or immediately following the publication.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the
