

May 27, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		BUY	
Target Price	831		1,135	
Sales (Rs. m)	2,769	3,356	3,757	5,534
% Chng.	(26.3)	(39.4)		
EBITDA (Rs. m)	635	847	921	1,392
% Chng.	(31.0)	(39.1)		
EPS (Rs.)	16.9	23.7	22.0	32.4
% Chng.	(23.3)	(26.8)		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	2,710	2,534	2,769	3,356
EBITDA (Rs. m)	745	530	635	847
Margin (%)	27.5	20.9	23.0	25.3
PAT (Rs. m)	512	397	516	726
EPS (Rs.)	16.7	13.0	16.9	23.7
Gr. (%)	(0.2)	(22.4)	30.0	40.7
DPS (Rs.)	3.4	2.6	3.4	4.8
Yield (%)	0.4	0.3	0.4	0.6
RoE (%)	11.5	7.0	8.6	11.2
RoCE (%)	13.8	6.1	7.3	10.4
EV/Sales (x)	7.5	8.2	7.6	6.3
EV/EBITDA (x)	27.2	39.4	33.0	24.8
PE (x)	45.7	58.9	45.3	32.2
P/BV (x)	4.2	4.0	3.8	3.4

Key Data

DIVG.BO | DIVGIITT IN

52-W High / Low	Rs.1,150 / Rs.650
Sensex / Nifty	75,391 / 22,932
Market Cap	Rs.23bn / \$ 281m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.34.29m

Shareholding Pattern (%)

Promoter's	60.48
Foreign	2.94
Domestic Institution	25.43
Public & Others	11.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.6)	(29.1)	(7.8)
Relative	(9.6)	(37.9)	(23.6)

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Divgi Torqtransfer
(DIVGIITT IN)

Systems

Rating: ACCUMULATE | CMP: Rs765 | TP: Rs831

Persistent headwinds to impact FY25 growth rate

Quick Pointers:

- Q4FY24 impacted by headwinds at 4 marquee clients
- Management expects H1FY25 remain under pressure

We cut our FY25E/26E EPS by 23.3%/26.8%, to factor in headwinds in the legacy business. Divgi Torqtransfer's (DIVGIITT) Q4FY24 revenue/EBITDA was lower than our estimates by 20.3%/28.6% respectively, led by weakness across segments. On the flipside, its EV side of the business grew by significantly driven by ramp-up in production at Shriwal plant. The management noted that the business headwinds are expected to continue in H1FY25 in its key business due to which it lowered its revenue growth guidance to 8-10% in FY25. It is working with its key clients towards the product restructuring which shall aid in volume expansion from H2FY25.

We expect DIVGIITTS to benefit from 1) ramp-up in its EV business to offset the headwinds in the legacy business 2) Focus on expanding its geographical presence which shall drive revenue and margin expansion 3) Increase the sale of components and other products. Factoring this, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 15.1%/26.4%/35.2% over FY24-FY26E. Given the near-term headwinds in the core business, we downgrade our rating from 'BUY' to 'ACCUMULATE' with TP of Rs 831 valuing it at a PE of 35x on its FY26E EPS.

- Q4FY24 missed our estimates due to persistent headwinds:** Its revenue declined by 11.3% YoY to Rs 651mn (PLe: Rs 817mn) mainly due to loss of production in transfer case business owing to change in preferences. As a consequence, it resulted in lower operating leverage which saw gross profit decline by 10.5% to Rs 378mn (PLe: Rs 459mn) with a margin of 58.1%. Similarly, EBITDA declined by 31.8% YoY to Rs 131mn (PLe: Rs 184mn) while margin contracted by 607bps YoY to 20.2%. PAT declined by 31.5% YoY to Rs 92mn (PLe: Rs 139mn).

- Key takeaways:** (1) Q4FY24 revenue growth was largely impacted by 4 clients with which the company is in the process of normalize the production loss and improve supply for newer models/variants. (2) Its EV transmission utilization is 25%, which the company aims to ramp-up in the coming quarters to enable itself to deliver on the order for OEMs. (3) Currently, some of its EV products are catering to medium range models which have seen lower demand, it is in the process to develop products for long range models which shall aid in new orders. (4) The company reported a revenue loss of Rs 350mn in transfer case business which was partially offset by Rs 250mn revenue from EV business. (5) Management indicated it has potential lifecycle revenue of Rs 9bn+ (Rs 3bn in international market) for which supply is estimated to start from H2FY25. (6) In terms of exports, it is looking to expand its geographical presence in key regions like USA, Mexico, Europe and Japan. (7) Capex for FY24 was estimated at ~Rs 1bn.



Exhibit 1: Q4FY24 Result Overview (Rs mn)

Y/e March	Q4FY24	Q4FY23	YoY gr. (%)	Q4FY24E	% Var.	Q3FY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Revenues	651	733	(11.3)	817	(20.3)	630	3.2	2,534	2,710	(6.5)
Raw Materials	273	311	(12.3)	358	(23.9)	284	(4.0)	1,062	1,114	(4.7)
<i>% of Net Sales</i>	<i>41.9</i>	<i>42.4</i>		<i>43.9</i>		<i>45.0</i>		<i>41.9</i>	<i>41.1</i>	
Personnel	64	56	15.6	63	1.7	45	44.2	241	245	(1.4)
<i>% of Net Sales</i>	<i>9.9</i>	<i>7.6</i>		<i>7.8</i>		<i>7.1</i>		<i>9.5</i>	<i>9.0</i>	
Manufacturing & Other Exp	182	174	4.7	211	(13.7)	173	5.4	700	607	15.4
<i>% of Net Sales</i>	<i>28.0</i>	<i>23.7</i>		<i>25.9</i>		<i>27.4</i>		<i>27.6</i>	<i>22.4</i>	
Total Expenditure	519	541	(4.0)	633	(17.9)	501	3.5	2,004	1,966	1.9
EBITDA	131	193	(31.8)	184	(28.6)	129	1.9	531	745	(28.7)
<i>EBITDA Margin (%)</i>	<i>20.2</i>	<i>26.3</i>		<i>22.5</i>		<i>20.5</i>		<i>20.9</i>	<i>27.5</i>	
Depreciation	57	37	54.9	48	18.0	48	17.3	187	130	43.9
EBIT	75	156	(52.2)	136	(45.1)	81	(7.4)	269	615	(56.2)
Interest Expenses	2	1		2	-	1	307.7	4	3	44.8
Non-operating income	51	26	94.6	48	5.3	46	10.2	196	76	156.6
Extraordinary Expenses	0	0		0		0		0	0	
PBT	124	181	(31.8)	182	(32.2)	126	(2.3)	535	688	(22.2)
Tax-Total	31	47	(32.5)	43	(26.9)	33	(3.7)	138	177	(22.0)
<i>Tax Rate (%) - Total</i>	<i>25.5</i>	<i>25.7</i>	<i>(1.1)</i>	<i>23.6</i>		<i>25.8</i>		<i>25.8</i>	<i>25.7</i>	<i>0.3</i>
Reported PAT	92	135	(31.5)	139	(33.9)	94	(1.8)	397	511	(22.3)
Adj. PAT	92	135	(31.5)	139	(33.9)	94	(1.8)	397	511	(22.3)
<i>PAT Margin</i>	<i>14.2</i>	<i>18.3</i>		<i>17.0</i>		<i>14.9</i>		<i>15.7</i>	<i>18.9</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	2,710	2,534	2,769	3,356
YoY gr. (%)	15.9	(6.5)	9.3	21.2
Cost of Goods Sold	1,114	1,062	1,173	1,413
Gross Profit	1,597	1,472	1,596	1,943
Margin (%)	58.9	58.1	57.7	57.9
Employee Cost	245	241	241	285
Other Expenses	607	700	720	810
EBITDA	745	530	635	847
YoY gr. (%)	13.1	(28.8)	19.8	33.3
Margin (%)	27.5	20.9	23.0	25.3
Depreciation and Amortization	130	187	194	168
EBIT	615	343	442	680
Margin (%)	22.7	13.6	16.0	20.3
Net Interest	3	4	4	4
Other Income	76	196	251	293
Profit Before Tax	688	535	688	968
Margin (%)	25.4	21.1	24.9	28.9
Total Tax	177	138	172	242
Effective tax rate (%)	25.7	25.8	25.0	25.0
Profit after tax	512	397	516	726
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	512	397	516	726
YoY gr. (%)	-	-	-	-
Margin (%)	18.9	15.7	18.6	21.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	512	397	516	726
YoY gr. (%)	10.9	(22.4)	30.0	40.7
Margin (%)	18.9	15.7	18.6	21.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	512	397	516	726
Equity Shares O/s (m)	31	31	31	31
EPS (Rs)	16.7	13.0	16.9	23.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	2,122	3,412	4,026	4,586
Tangibles	2,122	3,412	4,026	4,586
Intangibles	-	-	-	-
Acc: Dep / Amortization	954	1,141	1,335	1,503
Tangibles	954	1,141	1,335	1,503
Intangibles	-	-	-	-
Net fixed assets	1,167	2,271	2,691	3,084
Tangibles	1,167	2,271	2,691	3,084
Intangibles	-	-	-	-
Capital Work In Progress	927	390	427	517
Goodwill	-	-	-	-
Non-Current Investments	48	93	102	124
Net Deferred tax assets	(4)	(26)	(28)	(34)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	319	357	360	453
Trade receivables	732	631	689	836
Cash & Bank Balance	3,113	2,506	2,440	2,394
Other Current Assets	71	26	29	35
Total Assets	6,420	6,411	6,886	7,621
Equity				
Equity Share Capital	153	153	153	153
Other Equity	5,360	5,651	6,063	6,644
Total Network	5,513	5,803	6,216	6,797
Non-Current Liabilities				
Long Term borrowings	3	3	3	4
Provisions	33	27	29	35
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	1	1	1
Trade payables	462	376	411	498
Other current liabilities	390	167	182	221
Total Equity & Liabilities	6,420	6,411	6,880	7,602

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	688	539	692	972
Add. Depreciation	130	187	194	168
Add. Interest	-	-	-	-
Less Financial Other Income	76	196	251	293
Add. Other	(66)	(196)	(251)	(293)
Op. profit before WC changes	752	530	635	847
Net Changes-WC	(169)	(294)	(26)	(151)
Direct tax	(174)	(116)	(170)	(236)
Net cash from Op. activities	408	120	440	460
Capital expenditures	(684)	(812)	(650)	(650)
Interest / Dividend Income	60	196	251	293
Others	(1,507)	-	0	0
Net Cash from Invt. activities	(2,131)	(616)	(399)	(357)
Issue of share cap. / premium	1,695	(27)	-	-
Debt changes	(3)	(1)	0	1
Dividend paid	(92)	(80)	(103)	(145)
Interest paid	(1)	(4)	(4)	(4)
Others	(2)	-	-	-
Net cash from Fin. activities	1,597	(111)	(107)	(149)
Net change in cash	(126)	(607)	(67)	(46)
Free Cash Flow	(276)	(692)	(210)	(190)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	16.7	13.0	16.9	23.7
CEPS	21.0	19.1	23.2	29.2
BVPS	180.3	189.8	203.3	222.3
FCF	(9.0)	(22.6)	(6.9)	(6.2)
DPS	3.4	2.6	3.4	4.8
Return Ratio(%)				
RoCE	13.8	6.1	7.3	10.4
ROIC	34.0	8.1	9.3	12.4
RoE	11.5	7.0	8.6	11.2
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	38	72	68	70
Valuation(x)				
PER	45.7	58.9	45.3	32.2
P/B	4.2	4.0	3.8	3.4
P/CEPS	36.5	40.1	33.0	26.2
EV/EBITDA	27.2	39.4	33.0	24.8
EV/Sales	7.5	8.2	7.6	6.3
Dividend Yield (%)	0.4	0.3	0.4	0.6

Source: Company Data, PL Research

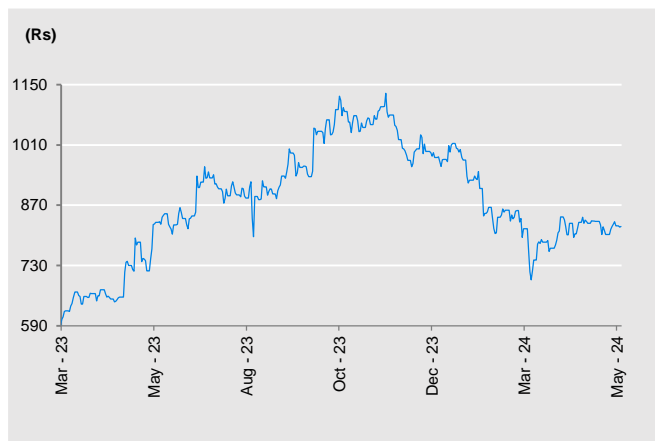
Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	566	687	630	651
YoY gr. (%)	(11.0)	(2.0)	(1.5)	(11.3)
Raw Material Expenses	221	285	284	273
Gross Profit	345	403	346	378
Margin (%)	61.0	58.6	55.0	58.1
EBITDA	127	143	129	131
YoY gr. (%)	(31.2)	(23.1)	(28.7)	(31.8)
Margin (%)	22.5	20.8	20.5	20.2
Depreciation / Depletion	36	45	48	57
EBIT	91	98	81	75
Margin (%)	16.1	14.2	12.8	11.5
Net Interest	1	1	1	2
Other Income	50	48	46	51
Profit before Tax	141	145	126	124
Margin (%)	24.9	21.0	20.0	19.0
Total Tax	36	37	33	31
Effective tax rate (%)	25.9	25.9	25.8	25.5
Profit after Tax	104	107	94	92
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	104	107	94	92
YoY gr. (%)	(14.6)	(20.1)	(22.2)	(31.5)
Margin (%)	18.4	15.6	14.9	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	104	107	94	92
YoY gr. (%)	(14.6)	(20.1)	(22.2)	(31.5)
Margin (%)	18.4	15.6	14.9	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	104	107	94	92
Avg. Shares O/s (m)	31	31	31	31
EPS (Rs)	3.4	3.5	3.1	3.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	BUY	1,135	843
2	05-Feb-24	BUY	1,135	913
3	14-Dec-23	BUY	1,300	994

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	595	669
2	Ashok Leyland	BUY	239	211
3	Bajaj Auto	Sell	7,267	9,021
4	Bharat Forge	BUY	1,615	1,405
5	Bharat Petroleum Corporation	Reduce	547	619
6	Bharti Airtel	Accumulate	1,373	1,310
7	CEAT	BUY	3,017	2,545
8	Clean Science and Technology	Hold	1,383	1,328
9	Deepak Nitrite	Reduce	2,268	2,464
10	Divgi Torqtransfer Systems	BUY	1,135	843
11	Eicher Motors	BUY	5,335	4,658
12	Endurance Technologies	Accumulate	2,346	2,168
13	Exide Industries	Accumulate	495	472
14	Fine Organic Industries	Accumulate	4,779	4,287
15	GAIL (India)	Sell	163	209
16	Gujarat Fluorochemicals	Reduce	3,120	3,638
17	Gujarat Gas	Accumulate	589	553
18	Gujarat State Petronet	BUY	400	294
19	Hero Motocorp	BUY	5,629	4,614
20	Hindustan Petroleum Corporation	Sell	420	501
21	Indian Oil Corporation	Reduce	151	169
22	Indraprastha Gas	Sell	368	452
23	Jubilant Ingrevia	Hold	526	512
24	Laxmi Organic Industries	Sell	206	257
25	Mahanagar Gas	Sell	1,116	1,300
26	Mahindra & Mahindra	BUY	2,716	2,372
27	Mangalore Refinery & Petrochemicals	Sell	142	233
28	Maruti Suzuki	BUY	14,432	12,703
29	Navin Fluorine International	Accumulate	3,621	3,377

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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