

Rating: Neutral

Issue Offer

The IPO is a book-built offering comprising an offer for sale of 17,755,680 equity shares, with a total issue size of up to INR 12,500 Mn.

Issue Summary

Price Band INR	668-704
Face Value INR	10
Implied Market Cap INR Mn.	40,023
Market Lot.	21
Issue Opens on	Dec 20, 2024
Issue Close on	Dec 24, 2024
No. of share pre-issue	56,851,538
No. of share post issue	56,851,538
Listing	NSE, BSE

Issue Break-up %

QIB Portion	≤ 50
Retail Portion	≥ 35
NII Portion	≥ 15

Registrar

Link Intime India Private Ltd

Book Running Lead Managers

Axis Capital Limited
Nuvama Wealth Management Limited
BNP Paribas

	Pre-Issue	Post-Issue
Promoters	100%	68.77%
Public & Others	-	31.23%

Objects of the issue

- Carry out the Offer for Sale of 17,755,680 Equity Shares of face value of INR 10 each aggregating up to INR 12,500 Mn by the Promoter Selling Shareholder; and
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Incorporated in 1997, Carraro India Ltd specializes in designing and manufacturing transmission systems and gears for agricultural, construction, and automotive sectors. The company operates two plants in Pune, Maharashtra—an 84,000 sq. m driveline plant with technologies for casting, machining, assembly, and testing, and a 78,000 sq. m gear plant equipped with heat treatment processes like carburizing and hardening. Key products include axles and transmission systems for agricultural tractors and construction vehicles such as backhoe loaders, telehandlers, and forklifts, along with gears, shafts, and ring gears for industrial applications. The company has built strong expertise in the tractor and construction industries, supported by 220 local suppliers across 8 states and 58 international suppliers. As of September 30, 2024, the company employed 87 full-time and 53 contractual after-sales and quality team members.

Investment Rationale:

Efficiency in Operations and Improved Profitability Metrics: Carraro India has improved its operational efficiency and profitability metrics over the years. The EBITDA margin increased from 5.45% in FY22 to 8.30% in FY24, a CAGR of 24.63% driven by strategic initiatives in cost management, including localization, value engineering, and double sourcing. Additionally, PAT margin expanded from 1.50% in FY22 to 3.50% in FY24, driven by optimized production processes and prudent financial management. The improvement is also in ROCE, which rose from 10.00% in FY22 to 19.35% in FY24, representing a CAGR of 40.35%.

Diversified Revenue Base and Long-Standing Customer Relationships: Carraro India's revenues are well-diversified, with 65.40% from domestic sales and 34.60% from exports as of 6M FY24, driven by strong demand in European Union markets contributing 33.24% of total revenue. The company's long-term relationships with top 10 customers, maintained for over 15 years, include leading OEMs in domestic and international markets. This diversification mitigates risks from macroeconomic fluctuations and ensures consistent demand.

Strategic Growth Backed by Strong Supply Chain and Market Expansion: The company achieved a 16.85% CAGR in the construction vehicle segment from FY22 to FY24, with revenues rising from INR 5,325.70 Mn to INR 7,271.77 Mn. This growth is supported by a stable supply chain of 220 domestic and 58 international suppliers, with 74% of material procurement localized to mitigate currency and global disruptions. This robust supply chain enhances operational efficiency and positions the company to capitalize on market opportunities.

Strategic Acquisition to Bolster Innovation and Market Position: The company's acquisition of Carraro Technologies India Private Limited (CTIPL) in June 2024 for INR 239.82 Mn marks a pivotal move in strengthening its R&D capabilities. With this, the company has enhanced its ability to innovate and deliver future-ready, customized solutions to its OEM customers in the agricultural and construction vehicle sectors. The acquisition also supports Carraro India's end-to-end product development strategy, from design to manufacturing, enabling faster response to evolving market demands.

Valuation and View:

With a balanced revenue mix between domestic and export markets, the company benefits from geographic diversification. Its strong presence in the European Union highlights its competitive edge in global markets. The company's acquisition of Carraro Technologies India Private Limited has fortified its R&D capabilities, enabling the company to develop innovative, customized products aligned with customer needs. Its end-to-end solutions, coupled with mission-critical offerings, ensure high customer retention and switching costs. Operational efficiency is a key strength, reflected in high utilization rates of 81.07% and 89.94% in its driveline and gear manufacturing plants, respectively. **At the upper band of INR 704, the issue is valued at a P/E ratio of 64x, based on a FY24 EPS of INR 11.00. We are recommending a "Neutral" rating for this issue.**

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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