

Verroc Engineering Ltd : Good Issue

IPO Note : Second Largest Indian Auto Component Group, Reasonably Priced compared to peers

: Ranking***



Issue details

Price band (F V Rs.1)	Rs.965-967
IPO Opening Date	26/06/18
IPO Closing Date	28/06/18
Issue Size	Rs. 1946 Cr.

Recommendation

Total revenue grew at a CAGR of 13.96% from Rs.7038.46 Cr for the FY 2015 to Rs.10417.07 Cr for FY 2018 and Net Profit grew at a CAGR of 199.32% in the same period. Net profit grew from Rs.16.81 to Rs.450.77. For last three fiscals it has posted an average EPS of Rs.29.40 and an average RoNW of 16.12%. Issue is priced at a P/BV of 4.61 on the basis of its NAV of Rs. 209.69 as on 31.03.18. **If we analyse the latest earnings and attribute it on fully diluted equity capital of Rs 13.48 crores, the EPS works out to Rs.33.43, then asking price Rs. 967 is at a P/E of 28.92 against Industry composite P/E of 41. As per offer documents, it is showing Motherson Sumi, Bharat Forge and Endurance Tech as its listed peers that are trading at a P/E of around 40, 39 and 45. Hence issue price is reasonable. The investors can expect reasonable gain.**

Highlights

- Varroc Engineering Ltd. (VEL) is a global tier-1 automotive component group catering to OEMs.
- The company's Global Lighting Business, 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)
- Strong, long-standing relationships with many of its customers. In the Global Lighting Business, it has a relationship with a large British car manufacturer since 2006. In the Indian Business, it has a longest-standing relationship is with Bajaj since 1990.
- It has a comprehensive portfolio of products in the markets which allow it to be a one-stop-shop for the customers and to cross-sell products.
- A global footprint of 36 manufacturing facilities spread across seven countries, with six facilities for the Global Lighting Business, 25 for India Business and five for other Businesses.
- It generates revenue of 65% from global plants and 35% from domestic plants.
- Its debt equity ratio stood at 0.3

Company Introduction

Incorporated in 1988, Aurangabad based Varroc Engineering Limited is a global tier-1 (tier-1 companies are companies that directly supply to original equipment manufacturers ("OEMs")) automotive component group. It designs, manufactures and supplies exterior lighting systems, plastic and polymer components, electricals-electronics components, and precision metallic components to the passenger car, commercial vehicle, two-wheeler, three-wheeler and off-highway vehicle ("OHV") OEMs directly worldwide. The 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). It is also the sixth-largest global exterior



www.varrocgroup.com

Financial Summary (Rs. In Crore)

Particulars	FY2018	FY2017	FY2016	FY2015
Total Income	10417.07	9702.26	8239.52	7038.46
Net Profit	450.77	303.38	369.82	16.81
EPS (Rs)	33.43	22.5	27.43	1.24

*EPS not annualize

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

automotive lighting manufacturer and one of the top three independent exterior lighting players (by market share in 2016).

Varroc has end-to-end capabilities across design, R&D, engineering, testing, manufacturing and supply of various products across the business. It has two primary business lines, namely (i) the design, manufacture and supply of exterior lighting systems to passenger cars OEMs worldwide ("Global Lighting Business"), which it undertakes 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 ("India Business"), primarily to two-wheeler and three-wheeler OEMs, including exports. The India Business offers a diversified set of products across three product lines, namely 65 polymers/plastics, electrical/electronics, and metallic components. In addition, it has other smaller businesses, which include the design, manufacture, and supply of two-wheeler lighting to global OEMs, and undercarriage forged machine components for OHVs and drill bits for the oil and gas sector ("Other Businesses").

Company Promoters:

The Promoter of the Company is Tarang Jain.

The object of the issue

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.

IPO Issue Proceed

For listing of its shares and providing exit to some of its stakeholders, VEL is coming out with a maiden IPO of 2.02 crore equity share of Re. 1 each via book building route. Issue price band is fixed at Rs. 965-Rs. 967 per share. Minimum application is to be made for 15 shares and in multiples thereon, thereafter. Issue opens for subscription on 26.06.18 and will close on 28.06.18. Company hopes to mobilize Rs. 1951.40 cr. to Rs. 1955.44 cr. (based on lower and upper price bands). Post allotment, shares will be listed on BSE and NSE. Being offer for sale, VEL's paid up equity capital post issue remains same at Rs. 13.48 cr.

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