

Issue Details

Op. Date	26 th Jun – 2018
Closing Date	28 th Jan – 2018
Issue Price	Rs.965 – Rs.967
FV	Rs. 1 per eq. share
Listing at	NSE & BSE
BRLMs	Kotak Mahindra Capital, Citigroup & IIFL hld.

Minimum Retail Application

Number of Shares	15 shares
Issue Size (Rs. in Crs)	1,945
Discount to Employees	48

Shareholding Pattern	Pre offer	Post Offer
Promoter	86.30%	85%
others	13.70%	15%

Objective of the Issue

To achieve the benefits of listing the Equity Shares on the Stock Exchanges

Issue Size	Allocations	Eq. Share
QIB	50%	1 Crs
HNI	15%	0.71 Crs
RIL	35%	0.30 Crs

Valuations	Lower Band	Higher Band
MCAP	1951 Crs	1955 Crs
EPS	33.40	33.40
BV	192	192
P/BV	5	5.02
p/e	28.89	28.95

Research Analyst

Foram Parekh

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VARROC ENGINEERING Ltd. - Subscribe**Company Background**

Varroc Engineering Limited, incorporated in 1988 is an Aurangabad based company and is also 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 as per the Source CRISIL Research and a leading tier-1 manufacturer and supplier to Indian two wheeler and three-wheeler OEMs by consolidated revenue for FY2017 as per the Source CRISIL Research. It is also the sixth-largest global exterior automotive lighting manufacturer and one of the top three independent exterior lighting players by market share in 2016.

Investment Rationale

- Strong, long-standing customer relationships.
- Strong competitive position in attracting growing markets.
- Comprehensive product portfolio.

Outlook & Valuation

The company has been growing at a CAGR of 12% over the past 3 years which is in-line with the other auto-ancillary companies. The stock is trading at reasonable valuations of 29x FY18 PE which is very attractive as compared to its peers which is trading at 32x PE on a trailing basis. The company also has well established brands like Bajaj, Eicher and TVS motors in its portfolio from a very long time. Looking at the immense opportunity the company has, we recommend SUBSCRIBE on the issue.

Particulars	FY15	FY16	FY17	FY18
Total Income	7039	8240	9702	10417
EBITDA	704	591	675	916
PAT	-35	369	303	451
EPS	1.75	14.10	22.50	33.40
EBITDA M	8.9%	6.9%	6.1%	8.5%
PAT M	0.2%	4.5%	3.2%	4.3%

Source

RHP

Investment Rationale

1. Strong competitive position in attracting growing markets.

VEL 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 consolidated revenue for FY2017. It has strong and long-lasting relationships with key two-wheeler manufacturers such as Bajaj, Royal Enfield, Honda, Yamaha and Suzuki and a growing portfolio of products supplied. VEL is positioned to capture further business from these customers, in addition to generating further business in the Indian two-wheeler and three-wheeler markets particularly from within the Indian scooter and motorcycle markets, from both existing and new customers. The Indian two-wheeler market is one of the largest in the world and has grown at a CAGR of 6.3% over FY2013 to FY2017 and it is expected that the Indian two-wheeler market will grow at a CAGR of 8-10% over FY2017 to FY2020 as per the CRISIL Research in each case in terms of domestic sales.

2. Strong, long-standing customer relationships.

VEL has strong, long-standing relationships with many of its customers. In its Indian Business, its longest-standing relationship is with Bajaj, who has been its customer since 1990 and whom it supply a wide variety of components. Its relationships with seven of its top 10 customers have lasted longer than 10 years. While, it has many key customers who has been with it for a long time, it nevertheless has 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.

3. Comprehensive product portfolio.

VEL has a comprehensive portfolio of products in the markets in which it operates, which allows it to be a one stop-shop for its customers and to cross-sell its products. Its 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. Its India Business offers a diverse range of products catering to two wheelers, three-wheelers, passenger vehicles, commercial vehicles and off-highway vehicles across its business segments of polymers/plastics, electrical-electronics and precision metallic components. Its comprehensive product portfolio is engine agnostic as it is capable of being used across all fuel types. This allows VEL will grow its overall business and become their supplier of choice across segments. Its strength in its product portfolio is shown by the fact that it has significant presence and significant customer relationships in each of its product segments.

VEL is a leading tier-1 manufacturer and supplier to Indian two-wheeler OEMs consolidated revenue for 2017

The Indian two-wheeler market is one of the largest in the world and has grown at a CAGR of 6.3%. It is expected to grow at a CAGR of 8-10% over FY2017-20.

VEL has a diversified customer base and continue to add new customers, such as Renault-Nissan, Mitsubishi and Volvo.

VEL's India Business offers a diverse range of products catering to two wheelers, three-wheelers, passenger vehicles, commercial vehicles and off-highway vehicles across its business segments of polymers/plastics, electrical-electronics and precision metallic components.

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Indiabulls Ventures Limited is a SEBI Registered Research Analyst having registration number: INH100004906

Disclosure:

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