

Varroc Engineering Limited

Issue Snapshot:

Issue Open: June 26 – June 28, 2018

Price Band: Rs. 965 – 967 (A discount of Rs. 48 per share to the eligible Employee)

Issue Size: 20,221,730 Equity Shares (Entirely Offer for sale including Employee Reservation)

Offer Size: Rs.1951.40 crs – 1955.44 crs

QIB	Upto 50% eq sh
Retail	atleast 35% eq sh
Non Institutional	atleast 15% eq sh
Employee	Upto 100,000 eq sh

Face Value: Rs 1

Book value: Rs 209.69 (Mar 31, 2018)

Bid size: - 15 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 13.48 cr
Post issue Equity:	Rs. 13.48 cr

Listing: BSE & NSE

Book Running Lead Manager: Kotak Mahindra Capital Company Ltd, Citigroup Global Markets India Private Ltd, Credit Suisse Securities (India) Private Ltd, IIFL Holdings Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	86.30	85.00
Public & Others	13.70	15.00
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

Varroc Engineering Ltd (VEL) is a global tier-1 (tier-1 companies are companies that directly supply to original equipment manufacturers ("OEMs")) automotive component group. It designs, 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. It is the second largest Indian auto component group (by consolidated revenue for FY2017) (Source: CRISIL Research) and a leading tier-1 manufacturer and supplier to Indian two-wheeler and three-wheeler OEMs (by consolidated revenue for FY2017) and 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 VEL had a compound annual growth rate ("CAGR") of 12.37% in terms of revenue.

VEL initially grew organically in India by adding new business lines, such as its electrical division and metallic division. Subsequently, it diversified its product offerings and expanded production capacity through various investments, joint ventures and acquisitions. It has end-to-end capabilities across design, R&D, engineering, testing, manufacturing and supply of various products across business. It has 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 it 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 (its "India Business"), primarily to two-wheeler and three-wheeler OEMs, including exports. Its India Business offers a diversified set of products across three product lines, namely polymers/plastics, electrical/electronics and metallic components. In addition, VEL 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

VEL has a global footprint of 36 manufacturing facilities spread across seven countries, with six facilities for its Global Lighting Business, 25 for India Business and five for its Other Businesses. Given global presence, VEL's revenue stream is diversified both geographically as well as across customers. For Global Lighting Business, its manufacturing facilities are located in Mexico, the Czech Republic, China (through its China JV) and India, allowing to serve the North American, European, Chinese and Indian markets, respectively. Within India Business, VEL has 25 manufacturing facilities and five R&D centers spread across India. Its Indian manufacturing and distribution footprint is strategically located across key Indian automotive hubs, allowing it to be close to its customers and helping to ensure cost efficiency. It has a long-standing relationship with Bajaj Auto Ltd ("Bajaj"), a leading two-wheeler manufacturer, which has been its customer for the past 28 years and to whom it has been providing components across its product lines. Its other key two wheeler customers in India include Honda, Royal Enfield, Yamaha, Suzuki and Hero. It also export to global two-wheeler manufacturers from its facilities in India, namely KTM and Volvo.

Objects of 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. Further, VEL expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its Shareholders. The listing will also provide a public market for the Equity Shares in India. VEL 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.

Competitive Strengths

- Strong competitive position in attractive growing markets
- Strong, long-standing customer relationships
- Comprehensive product portfolio.
- Low cost, strategically located manufacturing and design footprint.
- Robust in-house technology, innovation and R&D capabilities.
- Consistent track record of growth and operational and financial efficiency.

Business Strategy:

- Focus on high growth markets for Global Lighting Business.
- Focus on increasing customer revenue for India Business.
- Continue to invest in R&D, design, engineering and software capabilities in order to capitalize on future Trends.
- Pursue strategic joint ventures and inorganic growth opportunities.
- Focus on operational efficiency.

Key Concerns

- Pricing pressures that may adversely affect the margins
- Dependence on key customers
- Exposure to counterparty credit risk
- Dependence on the performance of the global passenger vehicle market and the two wheeler and three wheeler markets in India
- Failure to identify and understand evolving industry trends and preferences
- Failure to develop new products to meet customers' demands
- Environmental and safety regulations that may adversely affect VEL's business
- Failure in implementing strategies, such as expanding VEL's business in China, South America, Southern Europe and Northern Africa, and East Asia or capitalizing on technological trends in the automotive industry;
- Strategic investments and alliances, acquisitions and mergers in the future, which may be difficult to integrate and manage
- Inability to obtain additional financing to meet capital expenditure and working capital requirements
- Failure to sustain or manage growth
- Failure to compete effectively in the highly competitive automotive components industry
- Risks associated with international operations
- Dependence on third parties for the supply of raw materials and delivery of products and such providers could fail to meet their obligations
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- Inability to protect its patents.

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