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Issue Offer

Fresh Issue of 54,99,600 equity shares (aggregating up to INR 539 Mn)

Issue Summary

Price Band (INR)	93-98
Face Value (INR)	10
M.Cap (INR Mn)	2,009
Market Lot	1200
Issue Opens on	Apr 23, 2024
Issue Close on	Apr 25, 2024
No. of share pre-issue	15,000,000
No. of share post issue	20,499,600
Listing	BSE SME

Issue Break-up (%)

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

Book Running Lead Managers

Beeline Capital Advisors Ltd

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	100.00%	73.13%
Public & Others	-	26.82%

Objects of the issue

Investment in a Subsidiary Company i.e. Emmforce Mobility Solutions Private Limited (EMSPL) in the form of equity or debt for meeting the requirement of working capital and margin money for term loan of the Subsidiary Company

To Meet the Working Capital Requirements of the company.

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Emmforce AutoTech, a Panchkula, Haryana-based aftermarket drivetrain component manufacturer manufactures niche drivetrain parts such as differential housings, differential locks, 4WD locking hubs, spindles, axles, yokes, and shafts, among others, for America and ASEAN aftermarket. Revenue driven mainly by Hubs & Spindles and MS <10% and capacity utilization 70-75%.

Investment Rationale

Emmforce's export-focused business: Primarily exports its products to aftermarket distributors and retailers in North America and ASEAN countries, comprising over 98% of its business. However, the company is now venturing into the Indian aftermarket for the first time, introducing rotavator blades that will also be exported to agricultural markets like the US and Africa.

Strong Existing Client Relationships: Company has earned a reputation based on which it has been successful in retaining reputed clients. Existing customer relationships, some spanning nearly two decades, facilitate repeat business and long-term partnerships, improving customer retention strategy. Leveraging these relationships represents a competitive advantage in acquiring new clientele and expanding business.

Focus to capitalize on set up new plant: A new 70,000 sq. ft. facility will be established within the existing 150,000 sq.ft. facility in Jharmajri, Baddi (Himachal Pradesh), aiming to produce 70 lakh blades annually, addressing ~6% of India's agricultural blade demand, expected to be commissioned by end-May, and featuring an in-house forging shop for enhanced integration and efficiency.

Streamlined Supply Solutions and Enhanced Distribution: With a range of drivetrain parts manufactured in-house, company offer a streamlined solution for customers, reducing logistics costs and management workload. US warehouse, operated through Group Company, enhances product distribution and alleviates customers from LCL(Less than Container Load) import challenges, lengthy lead times, and customs clearance expenses.

Quality Assurance Excellence: Stringent quality standards are maintained throughout processes, ensuring top-notch quality from start to finish. Dedicated focus on placing the right personnel in the right roles enables delivery of specialized services to clients. This commitment to quality has given a competitive edge and earned repeat orders, reflecting the trust and goodwill built with customers.

Strategic Positioning in Automotive Components: The automotive component industry is fiercely competitive, but the focus on R&D, engineering, and customer-centricity helps company to stay ahead. With reduced lead times and a wide range of products tailored to each customer, maintain high customer retention. Specialization in 4WD and performance racing parts allows us to offer innovative solutions and excel in low batch production, setting us apart from OEM-dependent competitors.

Valuation & Outlook:

Emmforce specializes in distinctive automotive drivetrain components. While it saw growth in revenue and profit in FY21 and FY22, FY23 saw a decline due to inventory issues. However, signs of recovery in 7MFY24 indicate a positive trend. Strong, long-standing client relationships bolster the company's resilience and foster repeat business. Additionally, the establishment of a new facility in Jharmajri, Baddi aims to meet agricultural blade demand. Considering the earnings for the FY24, the stock seems to be fairly valued. At the upper band of INR 98, the issue is valued at an EV/EBITDA of 26.6x based on FY23 EBITDA of INR INR 81 Mn and P/E of 33.4x based on FY23 EPS of INR 2.93. We are recommending "Subscribe" for this issue.

(INR Mn)	FY21	FY22	FY23
Revenue	504.5	690.6	456.9
EBITDA	96	121	81
EBITDAM (%)	19.0%	17.4%	17.6%
PAT	51	73	44
PATM (%)	10.1%	10.6%	9.6%
EPS (INR)	3.4	4.9	2.9

Financial Statements

Income statement summary			
Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	505	691	457
Operating expenses		346	462
Gross Profit	159	229	190
Gross Margin (%)	31.4%	33.2%	41.5%
Employee Cost	28	43	55
Other Expenses	35	66	54
EBITDA	96	121	81
EBITDA Margin (%)	19.0%	17.4%	17.6%
Depreciation	(12)	(13)	(19)
Interest expense	(15)	(19)	(24)
Other income	14	23	31
Share of profits associate & JV		-	-
Profit before tax	83	112	68
Taxes	(32)	(39)	(24)
PAT	51	73	44
PAT Margin (%)	10.1%	10.6%	9.6%
EPS (INR)	3.4	4.9	2.9

Cashflow summary			
Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	83	112	68
Depreciation	12	13	19
Tax paid	(32)	(39)	(24)
Working capital Δ	(142)	(122)	13
Change in Goodwill		-	-
Operating cashflow	(79)	(36)	76
Capital expenditure		(96)	(80)
Free cash flow	(175)	(116)	46
Equity raised	102	(13)	(22)
Investments	-	-	-
Others	(3)	1	(0)
Debt financing/disposal		50	115
Dividends paid	-	-	-
Other items	32	7	(12)
Net Δ in cash	5	(5)	0.02
Opening Cash Flow		5	0.05
Closing Cash Flow	5	0.05	0.07

Balance sheet summary			
Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	152	213	234
Preference capital	-	-	-
Net worth	152	213	234
Minority Interest	-	-	-
Provisions	31	36	24
Debt	50	165	154
Other non-current liabilities		0	4
Total Liabilities	338	526	490
Fixed assets	84	136	121
Capital Work In Progress		-	15
Other Intangible assets		-	-
Other non current assets		-	-
Net working capital	142	264	251
Inventories	37	65	79
Sundry debtors	153	194	140
Loans & Advances	14	27	23
Other current assets		41	86
Sundry creditors	(99)	(95)	(59)
Other current liabilities & Prov		(5)	(13)
Cash	5	0.05	0.07
Other Financial Assets		2	2
Total Assets	338	526	490

Ratio analysis			
Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		36.9%	-33.8%
Op profit growth		26.0%	-33.2%
Profitability ratios (%)			
OPM	19.0%	17.4%	17.6%
Net profit margin	10.1%	10.6%	9.6%
RoCE	35.8%	26.0%	14.9%
RoNW	33.3%	34.4%	18.7%
RoA	15.0%	13.9%	9.0%
Per share ratios (INR)			
EPS	3.39	4.88	2.93
Book value per share		7.4	10.4
Valuation ratios (x)			
P/E	28.9	20.1	33.4
P/B	13.2	9.4	8.6
EV/EBITDA	22.6	17.9	26.9
Payout (%)			
Tax payout	38.4%	34.6%	35.2%
Liquidity ratios			
Debtor days	111	102	112
Inventory days	40	52	108
Creditor days	88	61	57
WC Days	62	93	163

Source: Company Reports, Arihant Capital Research

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Stock Rating Scale

BUY
ACCUMULATE
HOLD
NEUTRAL
REDUCE
SELL

Absolute Return

>20%
12% to 20%
5% to 12%
-5% to 5%
-5% to -12%
<-12%

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