

February 18, 2025

Q3FY25 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	REDUCE		HOLD	
Target Price	408		637	
Sales (Rs. m)	2,385	2,764	2,677	3,273
% Chng.	(10.9)	(15.6)		
EBITDA (Rs. m)	487	608	600	771
% Chng.	(18.8)	(21.1)		
EPS (Rs.)	12.4	14.0	15.6	18.4
% Chng.	(20.4)	(23.8)		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	2,534	2,207	2,385	2,764
EBITDA (Rs. m)	531	400	487	608
Margin (%)	20.9	18.1	20.4	22.0
PAT (Rs. m)	397	292	380	428
EPS (Rs.)	13.0	9.6	12.4	14.0
Gr. (%)	(22.3)	(26.5)	30.1	12.6
DPS (Rs.)	2.6	3.0	4.0	2.8
Yield (%)	0.6	0.7	0.9	0.6
RoE (%)	7.0	4.9	6.2	6.7
RoCE (%)	6.1	2.9	4.4	5.6
EV/Sales (x)	4.5	5.3	5.0	4.3
EV/EBITDA (x)	21.5	29.3	24.5	19.7
PE (x)	35.0	47.6	36.6	32.5
P/BV (x)	2.4	2.3	2.2	2.1

Key Data

52-W High / Low	Rs.880 / Rs.437
Sensex / Nifty	75,997 / 22,960
Market Cap	Rs.14bn / \$ 160m
Shares Outstanding	31m
3M Avg. Daily Value	Rs.15.45m

Shareholding Pattern (%)

Promoter's	60.48
Foreign	1.68
Domestic Institution	25.80
Public & Others	12.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(25.6)	(29.3)	(46.0)
Relative	(24.9)	(25.2)	(48.6)

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Persistent headwinds to impact growth prospects

Quick Pointers:

- Aims to reach double-digit revenue penetration from exports in FY26
- Discussions underway with multiple clients to convert RFQs into orders

We cut our estimates by 5-25% over the forecast period to factor in the headwinds in the legacy transfer case business and slowdown in the EV business. Further, we downgrade our rating from "HOLD" to "REDUCE" with a TP of Rs408 (previous Rs637), valuing it at a P/E of 30x on its Dec'26 EPS. Divgi Torqtransfer Systems (DIVGIIT) reported 7th consecutive quarter of de-growth in revenue, indicating persistent challenges across core and new business segments. Its Q3FY25 revenue declined by 16.5% YoY, against the anticipated de-growth of 8%/11% (PLe/BBGe). Gross profit declined by 5% YoY, but gross margin expanded by 776bps YoY to 62.7% (PLe: 50.8%). EBITDA declined by 33.3% YoY, while margin contracted by 407bps YoY to 16.4% (PLe: 18.5%; BBGe: 18.4%), impacted by sharp rise in staff and other expenses. Weak overall performance led its PAT to decline by 44.1% YoY. The company has outlined a strategy to expand its product portfolio as well as diversify its revenue streams through components and exports businesses. However, we believe increased competition for a key customer in the EV space and low 4W drive penetration shall continue to impact its growth. Downgrade to "REDUCE."

- **Revenue decline across segments led to miss on estimates:** Q3FY25 revenue came in at Rs525mn (PLe: Rs579mn; BBGe: Rs564mn), impacted by lower sales in EV transmission and transfer case segments. Gross profit was Rs329mn (PLe: Rs330mn), and margin expanded by 776bps YoY to 62.7% (PLe: 56%), aided by better realization. EBITDA was Rs86mn (PLe: Rs107mn; BBGe: Rs110mn), while margin contracted by 407bps YoY to 16.4% (PLe: 18.5%; BBGe: 18.4%), impacted by higher royalty towards BorgWarner and rise in employee expenses. Persistent headwinds impacted DIVGIIT's profitability, as PAT came in at Rs52mn (PLe: Rs81mn; BBGe: Rs80mn).
- **Weak performance in core and EV businesses:** Revenue from the transfer case business dropped 38.5% YoY to Rs240mn, impacted by low volume from key customers towards the 4W drive business. Slowdown in the EV industry and increased competition for a key client led the E-gear drive revenue to decline by 20% YoY to Rs40mn. Components revenue increased 27.3% YoY to Rs140mn, driven by strong orders from domestic and international clients.
- **Key concall highlights:** 1) Plans on to expand transfer case business internationally in Japan, Korea and US, and introduce new variants in the domestic market. 2) EV transmission sales below expectations due to slowdown in customer adoption; new long-range models for M&M and Tata Motors to drive volume growth in the upcoming period. 3) New opportunities in the US aftermarket to strengthen revenue streams. 4) Per unit realization on the transfer case is significantly better due to better sales in defense. 5) Discussions underway with multiple clients to further strengthen its order book and diversify its revenue stream. 5) Production approvals received for exports products, which have a potential of generating ~Rs70mn revenue monthly.

Exhibit 1: Q3FY25 Result Overview (Rs mn)

Y/e March	Q3FY25	Q3FY24	YoY gr. (%)	Q3FY25E	% Var.	Q2FY25	QoQ gr. (%)	9MFY25	9MFY24	YoY gr. (%)
Net Revenues	525	630	(16.7)	579	(9.3)	540	(2.7)	1,607	1,884	(14.7)
Raw Materials	196	284	(31.1)	249	(21.4)	216	(9.5)	647	789	(18.1)
% of Net Sales	37.3	45.0	-776 bps	43.0	-571 bps	40.1	-282 bps	40.3	41.9	-165 bps
Personnel	62	45	39.0	67	(6.8)	63	(1.1)	187	177	5.9
% of Net Sales	11.8	7.1	474 bps	11.5	32 bps	11.6	19 bps	11.7	9.4	227 bps
Manufacturing & Other Exp	181	173	4.8	156	15.9	147	23.2	486	518	(6.2)
% of Net Sales	34.5	27.4	709 bps	27.0	749 bps	27.2	725 bps	30.2	27.5	272 bps
Total Expenditure	439	501	(12.5)	472	(7.0)	426	3.0	1,320	1,484	(11.1)
EBITDA	86	129	(33.3)	107	(19.6)	113	(24.1)	287	399	(28.1)
EBITDA Margin (%)	16.4	20.5	-407 bps	18.5	-210 bps	21.0	-462 bps	17.9	21.2	-334 bps
Depreciation	64	48	31.3	58	9.8	60	6.6	181	130	39.1
EBIT	23	81	(72.0)	49	(54.2)	54	(58.0)	106	269	(60.6)
Interest Expenses	1	1	113.5	1	11.0	1	11.0	3	2	38.5
Non-operating income	49	46	6.9	60	(17.6)	53	(5.8)	153	145	6.1
PBT	71	126	(43.9)	108	(34.5)	105	(32.6)	257	412	(37.6)
Tax-Total	19	33	(43.2)	27	(31.9)	27	(30.9)	66	107	(37.6)
Tax Rate (%) - Total	26.2	25.8	32 bps	25.2	99 bps	25.5	64 bps	25.9	25.9	2 bps
Reported PAT	52	94	(44.1)	81	(35.3)	78	(33.2)	190	305	(37.7)
PAT Margin	10.0	14.9	-490 bps	14.0	-402 bps	14.5	-456 bps	11.8	16.2	-436 bps

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	2,534	2,207	2,385	2,764
YoY gr. (%)	(6.5)	(12.9)	8.1	15.9
Cost of Goods Sold	1,062	898	971	1,114
Gross Profit	1,472	1,309	1,415	1,650
Margin (%)	58.1	59.3	59.3	59.7
Employee Cost	241	258	255	296
Other Expenses	700	651	673	746
EBITDA	531	400	487	608
YoY gr. (%)	(28.7)	(24.7)	21.8	25.0
Margin (%)	20.9	18.1	20.4	22.0
Depreciation and Amortization	187	229	215	249
EBIT	344	170	272	359
Margin (%)	13.6	7.7	11.4	13.0
Net Interest	4	4	4	4
Other Income	196	226	242	220
Profit Before Tax	535	392	510	575
Margin (%)	21.1	17.8	21.4	20.8
Total Tax	138	100	130	147
Effective tax rate (%)	25.8	25.5	25.5	25.5
Profit after tax	397	292	380	428
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	397	292	380	428
YoY gr. (%)	-	-	-	-
Margin (%)	15.7	13.2	15.9	15.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	397	292	380	428
YoY gr. (%)	(22.3)	(26.5)	30.1	12.6
Margin (%)	15.7	13.2	15.9	15.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	397	292	380	428
Equity Shares O/s (m)	31	31	31	31
EPS (Rs)	13.0	9.6	12.4	14.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	3,386	4,314	4,933	5,466
Tangibles	3,386	4,314	4,933	5,466
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,136	1,365	1,580	1,828
Tangibles	1,136	1,365	1,580	1,828
Intangibles	-	-	-	-
Net fixed assets	2,250	2,949	3,353	3,638
Tangibles	2,250	2,949	3,353	3,638
Intangibles	-	-	-	-
Capital Work In Progress	411	340	368	426
Goodwill	-	-	-	-
Non-Current Investments	93	81	88	102
Net Deferred tax assets	(26)	(23)	(24)	(28)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	357	266	288	326
Trade receivables	631	587	627	727
Cash & Bank Balance	2,510	2,204	1,996	1,926
Other Current Assets	26	23	25	27
Total Assets	6,414	6,568	6,872	7,311
Equity				
Equity Share Capital	153	153	153	153
Other Equity	5,651	5,851	6,109	6,451
Total Network	5,803	6,004	6,262	6,604
Non-Current Liabilities				
Long Term borrowings	3	2	3	3
Provisions	27	23	25	29
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1	1	1	1
Trade payables	376	363	392	454
Other current liabilities	170	145	157	182
Total Equity & Liabilities	6,414	6,568	6,872	7,311

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	539	396	514	579
Add. Depreciation	187	229	215	249
Add. Interest	-	-	-	-
Less Financial Other Income	196	226	242	220
Add. Other	(196)	(226)	(242)	(220)
Op. profit before WC changes	531	400	487	608
Net Changes-WC	(291)	119	(33)	(65)
Direct tax	(116)	(103)	(128)	(143)
Net cash from Op. activities	124	415	326	400
Capital expenditures	(812)	(850)	(650)	(600)
Interest / Dividend Income	196	226	242	220
Others	0	0	0	0
Net Cash from Invst. activities	(616)	(625)	(408)	(381)
Issue of share cap. / premium	(27)	-	-	-
Debt changes	(1)	0	0	0
Dividend paid	(80)	(92)	(122)	(86)
Interest paid	(4)	(4)	(4)	(4)
Others	-	-	-	-
Net cash from Fin. activities	(111)	(96)	(126)	(89)
Net change in cash	(604)	(306)	(208)	(70)
Free Cash Flow	(688)	(435)	(324)	(200)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	13.0	9.6	12.4	14.0
CEPS	19.1	17.0	19.5	22.1
BVPS	189.8	196.3	204.8	216.0
FCF	(22.5)	(14.2)	(10.6)	(6.5)
DPS	2.6	3.0	4.0	2.8
Return Ratio(%)				
RoCE	6.1	2.9	4.4	5.6
ROIC	8.1	3.4	4.9	5.9
RoE	7.0	4.9	6.2	6.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.3)	(0.3)
Net Working Capital (Days)	72	65	64	63
Valuation(x)				
PER	35.0	47.6	36.6	32.5
P/B	2.4	2.3	2.2	2.1
P/CEPS	23.8	26.7	23.4	20.5
EV/EBITDA	21.5	29.3	24.5	19.7
EV/Sales	4.5	5.3	5.0	4.3
Dividend Yield (%)	0.6	0.7	0.9	0.6

Source: Company Data, PL Research

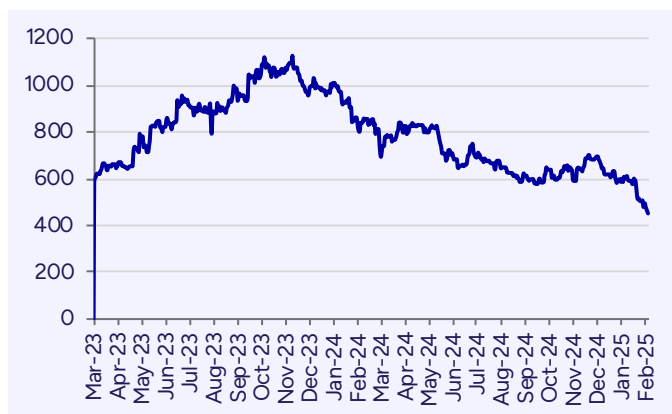
Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Revenue	651	542	540	525
YoY gr. (%)	(11.3)	(4.1)	(21.5)	(16.7)
Raw Material Expenses	273	235	216	196
Gross Profit	378	308	323	329
Margin (%)	58.1	56.7	59.9	62.7
EBITDA	131	87	113	86
YoY gr. (%)	(31.8)	(31.3)	(20.6)	(33.3)
Margin (%)	20.2	16.1	21.0	16.4
Depreciation / Depletion	57	58	60	64
EBIT	75	30	54	23
Margin (%)	11.5	5.5	10.0	4.3
Net Interest	2	1	1	1
Other Income	51	51	53	49
Profit before Tax	124	81	105	71
Margin (%)	19.0	14.9	19.5	13.5
Total Tax	31	21	27	19
Effective tax rate (%)	25.5	26.1	25.5	26.2
Profit after Tax	92	60	78	52
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	92	60	78	52
YoY gr. (%)	(31.5)	(42.9)	(26.9)	(44.1)
Margin (%)	14.2	11.0	14.5	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	92	60	78	52
YoY gr. (%)	(31.5)	(42.9)	(26.9)	(44.1)
Margin (%)	14.2	11.0	14.5	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	92	60	78	52
Avg. Shares O/s (m)	31	31	31	31
EPS (Rs)	3.0	1.9	2.6	1.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-25	Hold	637	585
2	19-Nov-24	Hold	632	638
3	07-Oct-24	Hold	633	591
4	12-Aug-24	Accumulate	734	665
5	08-Jul-24	Accumulate	831	742
6	27-May-24	Accumulate	831	765
7	08-Apr-24	BUY	1,135	843

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	244	219
2	Bajaj Auto	BUY	9,853	8,398
3	Bharat Forge	Hold	1,050	1,094
4	CEAT	Hold	3,030	3,044
5	Divgi Torqtransfer Systems	Hold	637	585
6	Eicher Motors	Accumulate	5,764	5,328
7	Endurance Technologies	BUY	2,592	1,914
8	Exide Industries	Hold	350	343
9	Hero Motocorp	Accumulate	4,736	4,275
10	Mahindra & Mahindra	BUY	3,664	3,198
11	Maruti Suzuki	BUY	14,154	11,978
12	Tata Motors	Hold	733	753
13	TVS Motor Company	Hold	2,461	2,336

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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