

All Gain, No Pain

The reverse merger of Igarashi Motors' (IGM) 41.97% hold-co - Agile Electric Sub-Assembly (Agile) into IGM is expected to be significantly EPS accretive for IGM. We believe that valuations at which Agile is being merged with IGM are attractive (~Rs.1.4bn, for the core-business, translating into ~4x FY17 PE), given Agile's strong EBITDA and core RoE profiles (19.8% and 26.5% for FY17) and strong growth prospects in the comfort motors space. Importantly, Agile is being taken over at book value.

A recap of recent, key corporate actions:

Mr. P. Mukund - MD of IGM to acquire ~34% stake held by PE funds (Tata PE and Alpha FDI) in Agile.

The value of Agile (core-business excluding the value of stake in IGM) for the purposes of the above has been determined at Rs.1.4bn. With the above transaction, Mr. Mukund's stake in Agile would increase to 34.5% from <1% currently, and his direct + indirect stake (through Agile) in IGM increasing to 36.2% from ~22% currently

Reverse merger of Agile into IGM and issue of bonus shares to only the minority shareholders

IGM's board has approved the reverse merger of Agile into IGM, subject to regulatory and shareholder approvals.

Considering the swap ratio of 88 shares of IGM for 323 shares of Agile, with IGM's market price being taken at Rs. 863/share for the purposes of the transaction, means that the value of Agile (core-business excluding the value of stake in IGM) is Rs.1.4bn, the same valuation as for the purposes of the PE buy-out transaction.

Importantly, Agile's merger is also taking place at its net-book value (excluding the cost of investments in IGM)

We believe that the above is a significant positive, given its EBITDA margin and RoE of 19.8% and 26.5% for FY17.

Also, in an altruistic move that speaks volumes of IGM's corporate governance standards, the board has also approved the issuance of bonus shares to the non-promoter minority shareholders of IGM, so that there is no dilution in their shareholding.

Consequent to the reverse merger, we expect synergies in the form of 1) diversification into newer applications (comfort motors) 2) shorter product launch time (with Agile engaged in contract manufacturing) 3) aggregation of technologies in each company 4) integration of value chain 5) improved utilization of facilities and scalability and 6) enhanced share-holder value.

IGM – Growth while steady, but could be slower than expected – While the customer programmes are on track, we believe that off-take could be slower than previously anticipated (by ~3QFY18, instead of 1QFY18). Expect revenue and PAT CAGR of 17% and 11% through FY17-FY19E

Agile – While we await further clarity on Agile's growth prospects, we believe that the rapid growth in usage of power electronics in vehicles would accelerate the usage of comfort motors. Agile, with its low cost manufacturing base, would be able to coat-tail on the same, and post revenue and PAT CAGR of 12% and 11% respectively.

Merger to be significantly EPS accretive: With Agile being acquired at lower valuations (and at book value), the merger would have an accretive impact of 34% each for FY18-FY19.

Expect consol revenue CAGR of 15%, with a PAT CAGR of ~44% (owning to full consolidation of IGM and Agile's PAT, as opposed to only 41.97% of IGM till FY17)

Maintain BUY, with TP of Rs. 1000, basis 25x FY19E EPS of the merged entity.

Company Update

Date	June 09, 2017
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Market Data

SENSEX	31213
Nifty	9647
Bloomberg	IGM IN
Shares o/s	31mn
Market Cap	Rs. 28bn
52-wk High-Low	Rs. 948-593
3m Avg. Daily Vol	Rs. 31mn
Index member	BSE SMCAP

Latest shareholding (%)

Promoters	75.0
Institutions	25.0

Stock Performance (%)

	1m	3m	12m
IGM	4%	16%	41%
Sensex	4%	8%	17%
BSE Auto	7%	12%	24%

Financial Summary (Merged Entity)

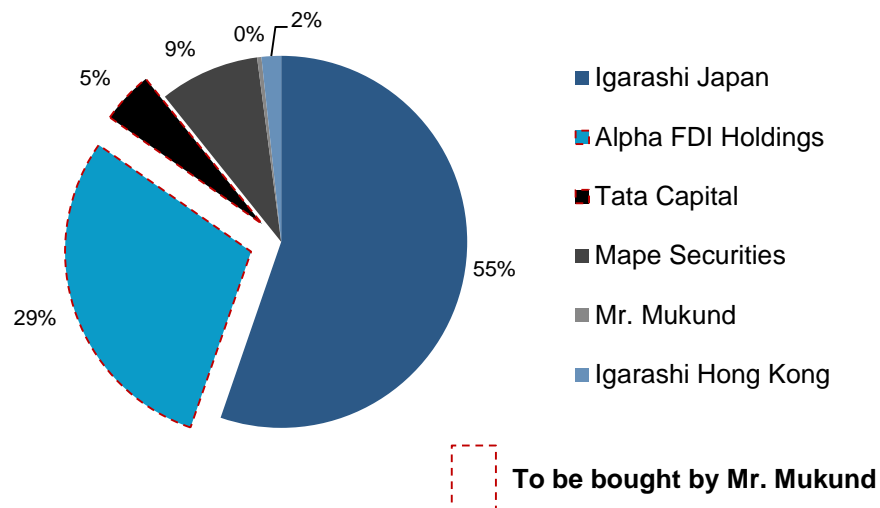
Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	EBITDA Margin	Adj. PAT (Rs. mn)	Adj. EPS (Rs.)	P/E(x)
FY17	7,599	1,908	25.1%	636	24.1	37.4
FY18E	8,555	1,967	23.0%	1,110	33.8	26.7
FY19E	10,034	2,301	22.9%	1,319	40.2	22.4

**Mr. Mukund P. (MD of IGM) to acquire PE held stake
in Agile Electric (the hold-co)**

Igarashi Motors India

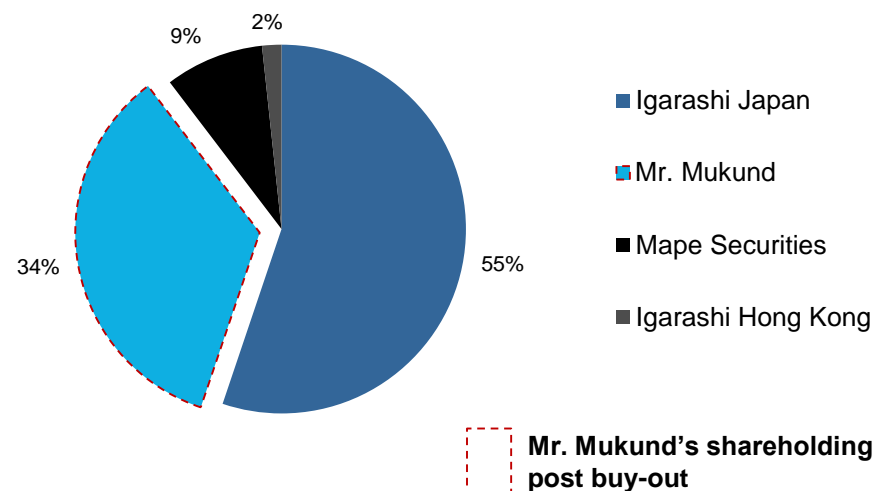
Mr. Mukund to buy ~34% stake in Agile held by Tata Capital and Alpha FDI Holdings

Share Holding Pattern of Agile Electric prior to buy-out



Source: Company, Spark Capital

Share Holding Pattern of Agile Electric post buy-out



Source: Company, Spark Capital

- ✓ Per the share-purchase agreement (SPA) between Mr. Mukund, Agile Electric Sub Assembly, Alpha FDI Holdings and TATA PE, Mr. Mukund would buy 15.6mn and 2.4mn shares from Alpha FDI and TATA PE, cumulatively amounting to ~34% stake in Agile Electric
- ✓ Pursuant to this, Mr. Mukund's shareholding in Agile Electric would increase from 0.47% to 34.51%

Agreed purchase consideration/share of Agile Electric per the SPA (Rs./share)	235
Total Purchase consideration to be paid by Mr. Mukund for 34% stake (Rs. Mn)	4,250

Igarashi Motors India

The implied value of the core-business of Agile (excl. the 41.97% investment in IGM) per the transaction is 7~Rs. 1.4bn

Calculation of the imputed value of Agile's core business

Purchase consideration/share of Agile Electric – Per the SPA (Rs./share)	235
Implied value of Agile per above (multiplying above value per share by Agile' total shares o/s) (Rs. Mn) (A)	12,484
IGM's market price (for the purposes of the transaction, Rs/share)	863
Number of shares o/s of IGM (nos. mn)	30.6
Implied Market cap of IGM (Rs. Mn)	26,415
Agile's Stake in above (41.92%) (B)	11,073
Hence, Value of Agile Core Business (A-B) (Rs. Mn)	1,411
Clean PAT (excl. dividend from IGM) of Agile for FY17 (per documents filed by IGM) (Rs. Mn)	326.5
Implied trailing PE	4.32

✓ **Alpha FDI and TATA PE are estimated to have made a total return of ~70% on their investment in Agile Electric over a period of a little less than 2 years.**

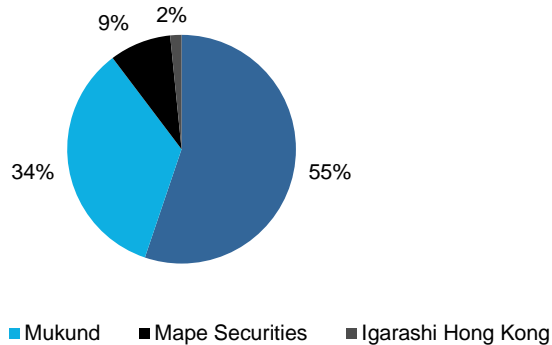
Source: Company, Spark Capital

**Contours of the Scheme of Reverse Merger Between IGM and Agile –
Subject to Shareholder and Regulatory Approvals**

Igarashi Motors India

Reverse merger of hold-co Agile into 41.97% subsidiary IGM

SHP – Agile (post buy-out of PE stake by Mr. Mukund)



Source: Company, Spark Capital

Swap Ratio Announced by Igarashi for Merger of Agile

Pursuant to the dilution in share holding accompanying the reverse merger for the minority shareholders, IGM's board has decided to allot **only to the minority shareholders**, bonus shares *“in the interest of public shareholders and to ensure compliance of minimum public shareholding post the demerger”*

For shares of Agile

323

Equivalent shares of IGM to be issued

88

Shares o/s of Agile (mn)

53

Thus, number of shares of IGM to be issued (mn)

14.46

IGM Market price assumed for calculation ► Rs. 863/share

Igarashi Motors India

For the reverse merger, Agile is being valued at the same valuation of ~Rs. 1.4bn as in the case of the PE buy-out transaction

Value of Agile as a whole entity (Rs. Mn)	12,482
Market cap of Igarashi (Rs. Mn)	26,415
Value of Agile stake In IGM (Rs. Mn)	11,073
Thus, Value of Core Agile Business (Rs. Mn)	1,409

Net book value of Agile Electric As at March 31, 2017	
Share Capital	531
R&S	1,788
Total Shareholder's funds	2,319
Investments in IGM	908
Net Shareholder's funds	1,411

- Thus, not only is Agile being valued at the same valuation as for the PE buy-out transaction by Mr. Mukund, it is also being taken over at its net book-value (adjusted for investment in IGM)

Igarashi Motors India

Fresh shares amounting to ~7% (on the expanded equity base) to be issued pursuant to the takeover of Agile + Bonus shares to minority shareholders

Shareholding pattern - IGM								
	Pre - merger		Fresh shares to be issued pursuant to merger	Post - merger SHP		Bonus shares to be issued to Minority SH of IGM	SHP Post Bonus Issue	
	% SH	# of shares		% SH	# of shares		% SH	# of shares
Promoters								
Agile Electric	41.9%	12.8	-	-	-	-	-	-
Mr. Mukund	21.8%	6.7	0.6	36.1%	11.6	-	35.5%	11.6
Igarashi Japan	3.2%	1.0	0.9	27.8%	9.0	-	27.3%	9.0
Igarashi HK	8.2%	2.5	-	8.4%	2.7	-	8.3%	2.7
Minority SH	25.0%	7.7	-	23.7%	7.7	0.5	25.0%	8.2
Alpha FDI Holdings	-	-	-	-	-	-	-	-
Tata Capital	-	-	-	-	-	-	-	-
Mape Securities	-	-	0.1	3.9%	1.3	-	3.8%	1.3
Total	100.0%	30.6	1.6	100.0%	32.2	0.5	100.0%	32.8
Promoter Holding	100.0%			76.3%			75.0%	

Source: Company, Spark Capital

Igarashi Motors India

Expected synergies pursuant to the merger

Market Application/diversification

- ✓ Agile operates in the comfort actuator motors & sub-assemblies and Igarashi Motors operates in the torque actuator motors for engines, turbo and exhaust applications.
- ✓ The company would be able to diversify into new application areas and serve existing and new customers

Product portfolio expansion and shorter product life cycle

- ✓ Agile manufactures customer designed products while IGM develops & manufactures own designed and patented products. Customer designed products would have a shorter launch time.
- ✓ Combination would provide diversification, expansion and risk mitigation of market/customers and applications

Technology Aggregation

- ✓ The merger would allow aggregation of specific technologies in each company, thereby aiding seamless engineering across the value stream for expansion into new products, applications and technologies

Business Chain Integration

- ✓ The amalgamation would create a full service supplier play by the company i.e. from product development, process development to manufacturing in Tier 2, Tier 3 and Tier 4 as both companies have specialized focus at different tiers

Expansion & scalability

- ✓ The amalgamation allows flexibility in utilization of manufacturing capacities in all operating Tiers enabling quicker launches in the manufacturing cycle and improved utilization of infrastructure and capacities.
- ✓ With initial seed launches from flexible capacity lines, scalable capacities can be added in the following phase for improved utilization of all resources that would enable the company to meet customer/market demands in a timely and efficient manner.

Shareholder value

- ✓ Would result in improved shareholder value by way of improved financial structure and cash flows, increased asset base and stronger consolidated revenue and profitability

Source: Company, Spark Capital

Financials

Igarashi Motors India

Standalone financial statements – Agile Electric

Financial snapshot (Rs. Mn) –Agile Electric Standalone	FY15	FY16	FY17
Revenue	2,907	3,532	3,556
EBITDA	454	559	704
EBITDA (%)	15.6%	15.8%	19.8%
Clean PAT (ex dividend from IGM)	123	156	326
PAT (%)	4.2%	4.4%	9.2%
Reported RoE (%)	9.1%	14.4%	16.1%
Gross Debt	1,296	1,097	1,107
Net Debt	1,242	1,001	n/a
Dividend from IGM (adjusted in the PAT above)	26	108	19

- EBITDA margin in FY16 was impacted by one-offs legal and professional expenses pertaining to a corporate action. Adjusting for the same, the EBITDA margin stood at ~18.8%.
- Excluding investments in IGM, and the dividend income from IGM, the RoE for FY17 stood at ~26.5%

Igarashi Motors India

Pro-forma consolidated financial statements – considering merged financials of IGM and Agile beginning FY18

Pro-forma consol. financial statements – considering merged financials of IGM and Agile beginning FY18; and 42% consolidation of IGM till FY17

Revenue	FY15	FY16	FY17	FY18E	FY19E
Igarashi Motors Standalone	3,851	4,450	5,079	5,738	6,941
Agile Electric Standalone	2,907	3,532	3,556	3,983	4,461
Consol Revenue (Net of Inter-company transactions)	5,992	7,089	7,599	8,555	10,034

EBITDA	FY15	FY16	FY17	FY18E	FY19E
Igarashi Motors Standalone	790	1,070	1,204	1,270	1,520
<i>EBITDA %</i>	<i>20.5%</i>	<i>24.1%</i>	<i>23.7%</i>	<i>22.1%</i>	<i>21.9%</i>
Agile Electric Standalone	454	559	704	697	781
<i>EBITDA %</i>	<i>15.6%</i>	<i>15.8%</i>	<i>19.8%</i>	<i>17.5%</i>	<i>17.5%</i>
Consol EBITDA	1,241	1,626	1,908	1,967	2,301
<i>EBITDA %</i>	<i>20.7%</i>	<i>22.9%</i>	<i>25.1%</i>	<i>23.0%</i>	<i>22.9%</i>

PAT	FY15	FY16	FY17	FY18E	FY19E
Igarashi Motors Standalone	490	636	738	772	914
Agile Electric Standalone (reported, incl Rs. 26mn, Rs. 108mn and Rs. 19mn of dividend from IGM for FY15-FY17)	149	264	346	338	405
Consol PAT	334	429	636	1,110	1,319

- Expect IGM's standalone revenue to grow at CAGR of 17% from FY17-FY19E.
- While the customer programmes are on track, we believe that off-take could be slower than previously anticipated (expect increased offtake by ~3QFY18, instead of 1QFY18 earlier).
- Await clarity on Agile's growth prospects. However, we believe that Agile would grow steadily in the fast growing comfort motor space given its low cost base.
- Expect revenue CAGR of 12% through FY17-FY19E

- Expect the stronger INR and a greater proportion of lower diameter motors in the mix (for IGM) to have a depressant impact on the margins going forward

- Till FY17, the consol PAT factors in only 41.97% of IGM's PAT.
- From FY18, pursuant to the reverse merger, the consol PAT would be a summation of the PAT of IGM and Agile

Igarashi Motors India

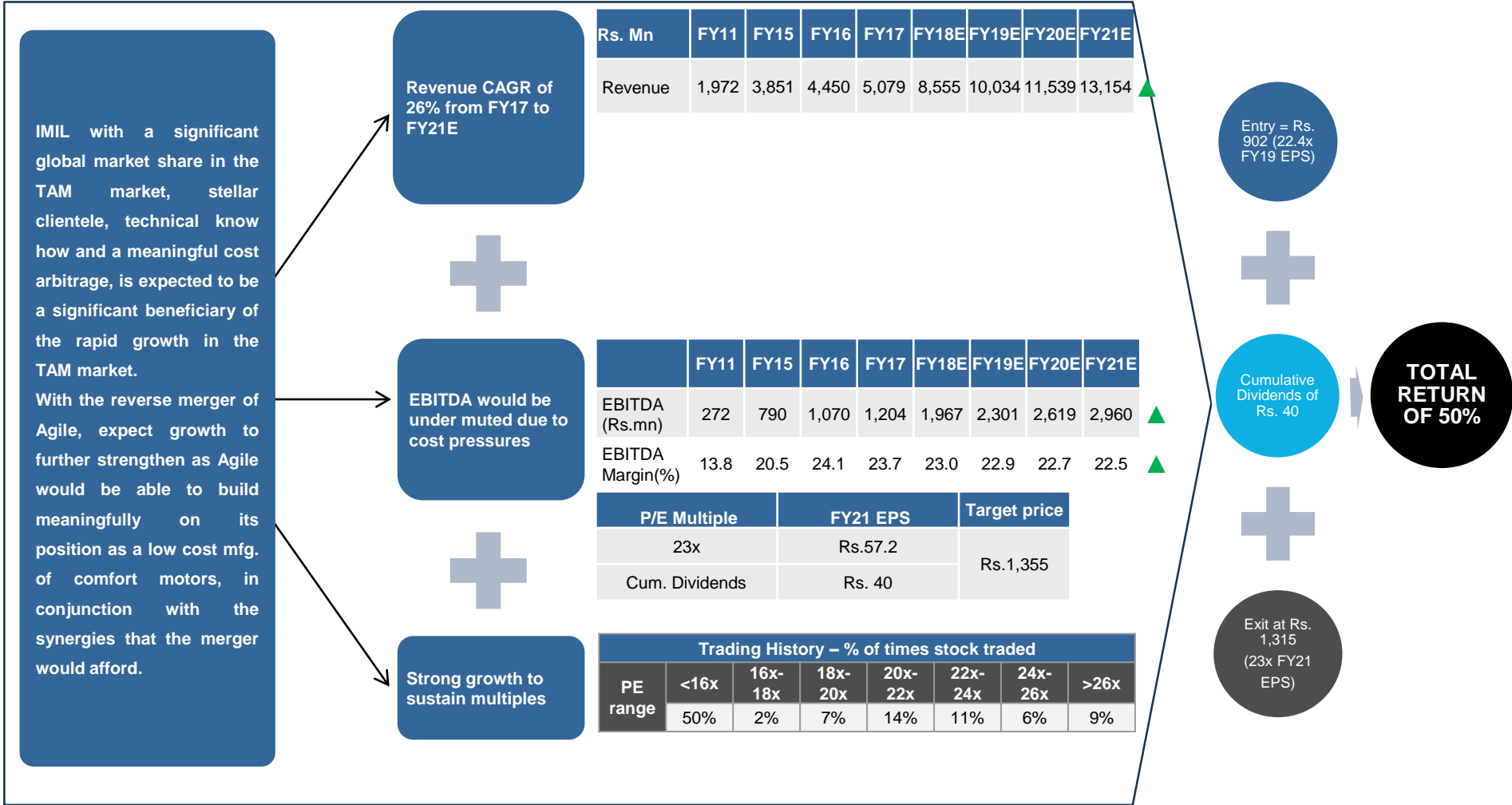
Pro-forma consolidated financial statements – considering merged financials of IGM and Agile beginning FY18

Financial snapshot (Rs. Mn) – IGM (Standalone till FY17 and merged financials with Agile from FY18)

	FY16	FY17	FY18E	FY19E	FY18E	FY19E
Revenue	4,450	5,079	8,555	10,034	5,738	6,941
EBITDA	1,070	1,204	1,967	2,301	1,270	1,520
EBITDA%	24.1%	23.7%	23.0%	22.9%	22.1%	21.9%
PAT	636	738	1,110	1,319	772	914
Shares outstanding	30.6	30.6	32.8	32.8	30.6	30.6
EPS	20.8	24.1	33.8	40.2	25.2	29.9
RoE	23.3%	22.2%	23.1%	21.5%	19.4%	21.0%

■ Above represents the standalone P&L of IGM without the merger for FY18 and FY19

Igarashi Motors – Crystal Ball Gazing

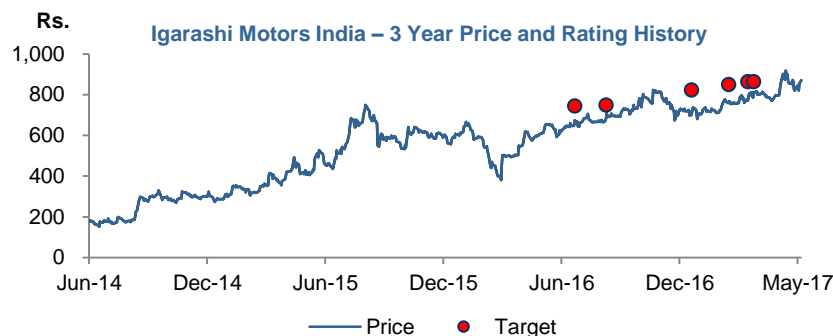


Igarashi Motors – Crystal Ball Gazing

Standalone Financial Statements

IGM - Standalone (excl. Agile Electric)					Key metrics				
Rs. mn	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
Profit & Loss					Growth ratios				
Revenues	4,450	5,079	5,738	6,941	Revenues	15.6%	14.1%	13.0%	21.0%
Manufacturing & Other Expenses	3,380	3,875	4,469	5,421	EBITDA	35.4%	12.5%	5.4%	19.7%
EBITDA	1,070	1,204	1,270	1,520	PAT	30.0%	15.9%	4.6%	18.5%
Depreciation	190	220	275	316	Margins				
EBIT	881	984	995	1,204	EBITDA	24.1%	23.7%	22.1%	21.9%
Net Interest Exp / (inc)	50	18	5	0	EBIT	19.8%	19.4%	17.3%	17.3%
Profit Before Tax	974	1,113	1,165	1,380	PAT	14.3%	14.5%	13.5%	13.2%
Tax	337	375	393	465	Leverage & WC ratios				
Net Profit	636	738	772	914	Debt to equity (x)	0.1	0.0	0.0	-
Balance Sheet (Rs. mn)					Current ratio (x)	1.1	1.3	1.3	1.3
Shareholders Equity	2,944	3,704	4,244	4,884	Debtor days (Sales)	70	73	73	73
Loan funds	224	85	0	0	Inventory days (Sales)	28	31	31	31
Sources of funds	3,259	3,895	4,351	4,991	Creditor Days (Sales)	55	60	60	60
Net block	1,378	1,579	1,936	2,383	Performance & turnover ratios				
Investments	337	1,750	1,750	1,750	RoACE	17.9%	18.2%	16.0%	17.1%
Capital WIP	117	26	26	26	RoAE	23.3%	22.2%	19.4%	20.0%
Current assets, loans & advances	2,879	2,048	2,306	2,813	Total asset turnover (x)	1.0	1.0	1.0	1.1
Current liabilities & provisions	1,452	1,508	1,667	1,980	Fixed asset turnover (x)	1.9	1.8	1.7	1.7
Net Current Assets	1,427	540	639	832	Valuation metrics				
Application of funds	3,259	3,895	4,351	4,991	Current price (Rs.)	902			
Cash Flows (Rs. mn)					Shares outstanding (mn)	30.6	30.6	30.6	30.6
Cash flows from operations	636	726	943	1,041	Market capitalisation (Rs. mn)	27,609	27,609	27,609	27,609
Capex	-416	-330	-631	-763	Enterprise value (Rs. mn)	26,572	27,591	27,501	27,455
Free Cash Flow	220	396	311	277	EV/EBIDTA (x)	24.8	22.9	21.7	18.1
Cash flows from investments	202	(1,743)	(631)	(763)	Adj. Per-share earnings (Rs.)	20.8	24.1	25.2	29.9
Cash flows from financing	(495)	(341)	(306)	(232)	Price-earnings multiple (x)	43.4	37.4	35.8	30.2
Cash & Cash equivalents	1,260	103	108	153	Dividend yield (%)	0.6%	0.7%	0.7%	0.8%

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Report Date	Price	Target	Reco.
22/Mar/17	805	865	BUY
10/Mar/17	779	865	Buy
10/Feb/17	760	850	Buy
15/Dec/16	699	823	Buy
08/Aug/16	677	750	Buy
21/Jun/16	647	745	Buy

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REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

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