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DIVGI TORQTRANSFER SYSTEMS LIMITED

Divgi TorqTransfer Systems Limited ("Company" or "Issuer") was originally incorporated as "Divgi Melwale Private Limited", a private limited company under the Companies Act, 1956 through certificate of incorporation dated December 16, 1964, issued by the Registrar of Companies, Maharashtra at Mumbai. Pursuant to an amendment to the Companies Act, 1956, our Company was deemed public under Section 43A (A) of the Companies Act, 1956. Consequently, the word "Private" was deleted from the name of our Company and our name was changed to "Divgi Melwale Private Limited" with effect from July 1, 1996. The name of our Company was further changed to "Divgi Melwale Private Limited" upon insertion of the word "Private" after our Company was converted into a private limited company pursuant to an amendment to Section 43A (1A) in Companies Act, 1956 by Companies Amendment Act, 2000 with effect from November 23, 1998 and a fresh certificate of incorporation dated October 26, 1999 was issued by the RoC. The name of our Company was further changed to "Divgi TorqTransfer Systems Limited" upon conversion to a public limited company and consequently a fresh certificate of incorporation was issued by the RoC on March 10, 2022, recording the change of our Company's name to "Divgi TorqTransfer Systems Limited". For further details in relation to change in name and change in the address of the registered office of our Company, see "History and Certain Corporate Matters - Change in the Registered Office" on page 174 of the Red Herring Prospectus dated February 23, 2023 ("RHP").

Registered and Corporate Office: Plot No. 75, General Block, MIDC, Bhoisar, Pune 411026; Tel: +91 020 - 63110114; Contact Person: Sush Chandra Shekar Kadolikar, Company Secretary and Compliance Officer; Tel: +91 020 - 63110114
E-mail: sckadolikar@divgi-tts.com; Website: www.divgi-tts.com; Corporate Identity Number: U32201MH1864PLC013685



THE PROMOTERS OF OUR COMPANY ARE JITENDRA BHASKAR DIVGI, HIRENDR BHASKAR DIVGI AND DIVGI HOLDINGS PRIVATE LIMITED

INITIAL PUBLIC OFFERING OF UP TO 1 (ONE) EQUITY SHARES OF FACE VALUE OF ₹ 5 EACH ("EQUITY SHARES") OF OUR COMPANY FOR CASH AT A PRICE OF ₹ 1 (ONE) PER EQUITY SHARE (INCLUDING A SECURITIES PREMIUM OF ₹ 1 (ONE) PER EQUITY SHARE) ("OFFER PRICE") AGGREGATING UP TO ₹ 5 (FIVE) MILLION, COMPRISING A FRESH ISSUE OF UP TO 1 (ONE) EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY OUR COMPANY ("FRESH ISSUE") AND AN OFFER FOR SALE OF UP TO ₹ 39,34,24,24 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION, COMPRISING UP TO ₹ 25,50,000 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY OMAN INDIA JOINT INVESTMENT FUND II, UP TO ₹ 14,41,441 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY NRJN FAMILY TRUST REPRESENTED BY ITS CORPORATE TRUSTEE, ENTRUST FAMILY OFFICE LEGAL AND TRUSTEESHIP SERVICES PRIVATE LIMITED, UP TO ₹ 49,43,43 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY BHARAT BHALCHANDRA DIVGI, UP TO ₹ 40,46,00 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY SANJAY BHALCHANDRA DIVGI, UP TO ₹ 12,22,22 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY KISHORE MANGESH KALBAG, UP TO ₹ 104,02,02 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY ASHISH ANANT DIVGI, UP TO ₹ 33,66,66 EQUITY SHARES AGGREGATING UP TO ₹ 1 (ONE) MILLION BY ARUN RAMDAS IDGUNJI (COLLECTIVELY, THE "SELLING SHAREHOLDERS"), AND SUCH EQUITY SHARES OFFERED BY THE SELLING SHAREHOLDERS, THE "OFFERED SHARES") (SUCH OFFER FOR SALE BY THE SELLING SHAREHOLDERS, THE "OFFER FOR SALE" AND TOGETHER WITH THE FRESH ISSUE, THE "OFFER") THE OFFER WILL CONSTITUTE 100% OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL OF OUR COMPANY.

| DETAILS OF THE OFFER FOR SALE BY SELLING SHAREHOLDERS (ISS: Investor Selling Shareholders; OSS: Other Selling Shareholders) | | | |
|--|------|---|---|
| NAME OF SELLING SHAREHOLDER | TYPE | NUMBER OF SHARES OFFERED AMOUNT (IN ₹) | Weighted Average Cost of Acquisition in ₹ Per Equity Share* |
| Oman India Joint Investment Fund II | ISS | Up to 22,50,000 Equity Shares aggregating up to ₹ 1 (ONE) Million | 167.30 |
| NRJN Family Trust (represented by its corporate trustee, Entrust Family Office Legal and Trusteeship Services Private Limited) | ISS | Up to 14,41,441 Equity Shares aggregating up to ₹ 1 (ONE) Million | 125.28 |
| Bharat Bhalkhandra Divgi | OSS | Up to 49,43,43 Equity Shares aggregating up to ₹ 1 (ONE) Million | 0.69 |
| Sanjay Bhalkhandra Divgi | OSS | Up to 40,46,00 Equity Shares aggregating up to ₹ 1 (ONE) Million | 0.82 |
| Ashish Anant Divgi | OSS | Up to 104,02,02 Equity Shares aggregating up to ₹ 1 (ONE) Million | 0.38 |
| Arun Ramdas Idgunji | OSS | Up to 33,66,66 Equity Shares aggregating up to ₹ 1 (ONE) Million | 2.50 |
| Kishore Mangesh Kalbag | OSS | Up to 15,22,22 Equity Shares aggregating up to ₹ 1 (ONE) Million | 2.50 |

*As certified by A. R. Sulakhe & Company, Chartered Accountants, pursuant to their certificate dated February 23, 2023.

The Offer is being made in accordance with Regulation 6(2) of the SEBI ICDR Regulations.

QIB Portion: Not less than 75% of the Offer | Non-Institutional Portion: Not more than 15% of the Offer | Retail Portion: Not more than 10% of the Offer

PRICE BAND: ₹560 TO ₹590 PER EQUITY SHARE OF FACE VALUE OF ₹5 EACH.

THE FLOOR PRICE IS 112 TIMES THE FACE VALUE OF THE EQUITY SHARES AND THE CAP PRICE IS 118 TIMES THE FACE VALUE OF THE EQUITY SHARES. BIDS CAN BE MADE FOR A MINIMUM OF 25 EQUITY SHARES AND IN MULTIPLES OF 25 EQUITY SHARES THEREAFTER

In accordance with the recommendation of a Committee of Independent Directors of our Company, pursuant to their resolution dated February 23, 2023, the above provided price band is justified based on quantitative factors/ KPIs disclosed in the 'Basis for the Offer Price' section of the RHP vis-a-vis the WACA of Primary and Secondary transaction(s) disclosed in 'Basis for the Offer Price' section on page 94 of the RHP.

RISKS TO INVESTORS

1. Select financial ratios:

| Particulars | At Floor Price | At Cap Price |
|--|----------------|--------------|
| Market Capitalisation/ Earnings (FY22) | 33.41 | 35.20 |
| Market Capitalisation/ Total Income (FY22) | 6.37 | 6.72 |
| Enterprise Value/ EBITDA (FY22) | 21.47 | 22.73 |
| P/E Ratio | 33.41 | 35.20 |

The Offer Price, multiples and ratios may not be indicative of the market price of the Equity Shares on listing or thereafter.

2. RISK FACTORS ASSOCIATED WITH OUR COMPANY

a. Our business largely depends upon our top five customers, and the loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on our business.

The table below sets forth the breakdown of our income from sale of goods from our respective customers.

| | Top one customer | | Top 5 customer | |
|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| | Revenue generated (in ₹ million) | As a (%) of revenue from operations | Revenue generated (in ₹ million) | As a (%) of revenue from operations |
| Six months ended September 30, 2022 | 988.45 | 73.92 | 1,239.05 | 92.66 |
| Fiscal 2022 | 1,255.55 | 53.71 | 2,133.86 | 91.28 |
| Fiscal 2021 | 665.44 | 35.67 | 1,732.60 | 92.86 |
| Fiscal 2020 | 417.09 | 26.22 | 1,382.85 | 86.94 |

b. The geographical concentration of our exports to certain countries and the inability to operate and grow our business in such countries may have a material adverse effect on our business, financial condition, results of operations, cash flows and future business prospects.

The table below sets forth the breakdown of our income from sale of goods across geographic markets, as a percentage of our total sale of goods for the periods indicated.

| Geographical Location | India | USA | China | Korea | Russia | Sweden | Total |
|-------------------------------------|--------|--------|--------|--------|--------|--------|---------|
| Six months ended September 30, 2022 | 91.61% | 3.82% | 4.54% | - | - | 0.03% | 100.00% |
| Fiscal 2022 | 73.70% | 2.71% | 8.64% | 3.24% | 11.71% | - | 100.00% |
| Fiscal 2021 | 49.87% | 10.66% | 16.46% | 7.22% | 15.79% | - | 100.00% |
| Fiscal 2020 | 48.12% | 14.30% | 12.96% | 10.49% | 14.13% | - | 100.00% |

c. Our business could be adversely affected by volatility in the price or availability of raw materials and components.

There is no certainty that we may not experience volatility in the cost or availability of such raw materials and commodities or in the cost or availability of utilities and natural resources used in our operations, such as power, water and fuel as well as increasing transportation costs in the future.

d. We depend on some third party suppliers for certain key components and raw materials used for manufacturing our systems and components. A disruption in the supply of these key components and raw materials and failure of our suppliers and third-party logistics service providers to meet their obligations and could impact our on time supplies and input cost, if resourced from other suppliers.

Details of the contribution by our top five raw material suppliers as a percentage of our total raw material is given below:

| | Contribution by our top five raw material suppliers (in ₹ million) | As a percentage of total raw material |
|-------------------------------------|--|---------------------------------------|
| | | |
| Six months ended September 30, 2022 | 243.01 | 42.70% |
| Fiscal 2022 | 384.82 | 39.67% |
| Fiscal 2021 | 287.57 | 39.45% |
| Fiscal 2020 | 290.55 | 49.07% |

e. Delays or defaults in customer payments and receivables may adversely impact our profits and affect our cash flows.

We face the risk of uncertainty regarding the receipt of the outstanding receivable amounts. Our outstanding trade receivables as a percentage of our revenue from operations and the trade receivables turnover ratio was as follows:

| | As a percentage of revenue from operations | Trade receivables turnover ratio* |
|-------------------------------------|--|-----------------------------------|
| Six months ended September 30, 2022 | 51.44% | 2.2 |
| As of March 31, 2022 | 22.51% | 4.35 |
| As of March 31, 2021 | 29.36% | 4.77 |
| As of March 31, 2020 | 14.71% | 5.18 |

* Trade Receivables turnover ratio: Revenue from operations over average Trade Receivable

f. We have only three manufacturing plants as on the date of the Red Herring Prospectus. Our manufacturing facility at Sirsi, Karnataka has the highest installed capacity, amongst the three manufacturing plants. Our manufacturing facilities are subject to operational risks associated with breakdown of machinery, manufacturing shutdowns, which may impact us in the future.

3. Average cost of acquisition of equity shares for the Selling Shareholders in IPO is as follows:

| Name of Selling Shareholder | Average Cost of Acquisition in ₹ Per Equity Share* |
|--|--|
| Oman India Joint Investment Fund II | 167.30 |
| NRJN Family Trust (represented by its corporate trustee, Entrust Family Office Legal and Trusteeship Services Private Limited) | 125.28 |
| Bharat Bhalkhandra Divgi | 0.69 |
| Sanjay Bhalkhandra Divgi | 0.82 |
| Ashish Anant Divgi | 0.38 |
| Arun Ramdas Idgunji | 2.50 |
| Kishore Mangesh Kalbag | 2.50 |

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Average cost of acquisition of Equity Shares held by the Selling Shareholders ranges from ₹0.38 to ₹167.30 per Equity Share and Offer Price at upper end of the Price Band is ₹590 per Equity Share.

4. Handled Issues Data

| Name of BRLMs | Total Issues | Issues Closed Below IPO Price on Listing Date |
|------------------------------------|--------------|---|
| Inga Ventures Private Limited | - | - |
| Equis Capital Private Limited | 10 | 3 |
| Common issues handled by the BRLMs | - | - |
| Total | 10 | 3 |

The 2 BRLMs associated with the Offer have handled 10 public issues in the past three Fiscal Years, out of which 3 issues closed below the offer price on the listing date.

5. Weighted Average Return on Net Worth for Fiscals 2022, 2021 & 2020 is 13.30% and as on September 30, 2022 is 7.20% (Not Annualized).

6. The weighted average cost of acquisition for all Equity Shares acquired in the last 18 months, one year and three years preceding the date of the RHP by all the Shareholders is set forth below:

| Period | WACA per Equity Share (in ₹) | Cap Price (₹ 590) is 'x' times the WACA | Range of acquisition price per Equity Share: lowest price - highest price (in ₹) |
|----------------|------------------------------|---|--|
| Last 1 year | 0.00 | NA | 0-0 |
| Last 18 months | 0.00 | NA | 0-0 |
| Last 3 years | 18.22 | 32.38 | 0 - 5,811.40* |

* Acquisition price is (i) pre sub-division of Equity Shares which was approved by the resolution of Board of Directors of the Company on December 7, 2021 and by the resolution of shareholders of the Company dated December 14, 2021, and (ii) pre bonus issue of Equity

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