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Blackstone planning to exit Sonalika Tractors partially by selling shares

Sonalika International Tractors Ltd, backed by the New York-headquartered investment firm, is looking to raise as much as Rs 2,000 crore through an Initial Public Offering (IPO).

Indulal PM & Ketan Thakkar | ET Bureau | 22 April 2016, 8:16 AM IST



MUMBAI: After investing \$1.1 billion in IT services firm Mphasis a fortnight back, Blackstone, the world's biggest private equity fund, is gearing up for a multi-bagger exit by selling shares in one of its portfolio companies.

Sonalika International Tractors Ltd, backed by the New York-headquartered investment firm

is looking to raise as much as Rs 2000 crore through an Initial Public Offering (IPO). Blackstone has roped in four investment banks including Goldman Sachs Inc, to help them with the listing, multiple sources with direct knowledge of the matter told ET.

SITL, the third largest tractor maker in India, sells under the Sonalika brand, has also hired Kotak Securities, JM Financial and ICICI Securities as book running lead managers for the issue.

The public offer, expected to be among the biggest this fiscal, is likely to launch in the second half of this year, sources said. The issue will see all major shareholders dilute their equity partially to offer up to 20 per cent to new investors, at a Rs 10,000 crore valuation.

Blackstone had invested about \$100 million for a 12.5 percent stake in SITL in 2012 and increased its holding to 17.5 percent later, while Yanmar Asia, a Japan-based agriculture equipment maker has picked up another 12.5 percent in the company. The founders led by chairman Lachhman Das Mittal, own the residual 70 per cent.

The largest chunk that will be made available in the IPO will come as an offer for sale from Blackstone which is expected to make a partial exit of nearly half of its holding.

Yanmar and the company's promoter group are yet to decide on the exact quantum of stake dilution, said one of the sources mentioned above. The private equity fund is expected to make a 3 times return from a four year old investment.

When contacted, Blackstone, Goldman Sachs and ICICI Securities declined to comment. Kotak and JM Financial did not immediately return an email seeking comment till the time it goes to the press.

AS Mittal, vice chairman of Sonalika Group of Companies told ET that the listing proposal is being considered but it is too premature to comment on it.

"Broadly speaking, the company is sitting on cash reserves of close to Rs 1800 crore and there is no need to raise funds right now. Blackstone is a private equity investor: They invest, create value, earn returns and exit.. That is their

In the Pipeline

- **Sonalika International Tractors Limited** is India's (SITL) 3rd largest tractor maker with 12% market share
- **Eyes up to ₹2,000 crore** via IPO in 2nd half of FY17
- **Blackstone** had invested about \$100 m for 12.5% stake in SITL in 2012
- **Later**, it raised it to 17.5%
- **The issue** will see all major shareholders dilute their equity partially to offer up to 20% to new investors at ₹10,000 crore valuation

Shareholders

Founders (Mittal family): 70%

Blackstone: 17.5%

Yanmar Asia: 12.5%



nature of business. To provide them an exit, the board may discuss an IPO route," said Mittal.

If successful, Blackstone will make its second exit in a span of six months after it sold part of its holding through the IPO of specialty chemicals maker SH Kelkar. Since 2005, it has invested over \$5.1 billion in India across its private equity and real estate practice.

Sonalika Tractors founded by Mittal when he was 65 after retiring as a zonal manager of state owned Life Insurance Corporation of India has been the fastest growing brand in the tractor space in the country and has seen over 400 basis points increase in market share over the last three years to the current 12%. Post the investment of Blackstone, Mittal said, Sonalika has seen over 40% jump in profits.

The company reported net profits of Rs 585 crore in FY15 on revenues of Rs 4,047 crore, according to its filing in ministry of corporate affairs.

The company which sells about 70,000 tractors per annum with over 12000 units being shipped to over 70 global locations aims to double volumes, turnover and profits by 2020, Mittal said. The third largest tractor maker is targeting a turnover of over Rs 10,000 crore, profits of Rs 1200 crore and volumes of close to 2 lakh units by 2020.

The company has set up world's largest integrated tractor factory in Hoshiarpur with capacity of close to 2 lakh units.

"We took a strategic call to be a focused farm equipment business company. With the cash reserves, we may look at acquisition opportunity if it makes sense or even set up a plant in market like United States. These are mere considerations, no plan has been finalised," added Mittal.

V G Ramakrishanan, MD at consultancy firm Avanteum Advisors, once a company reaches a certain scale, it becomes difficult another PE company or another investor to create a significant value out of further investment. IPO offers an exit route to monetise their investment.

"Sonalika has been on an expansion mode, especially in the international markets. And back home too they have reached a reasonable market share. But for the company to break into the next level, they need to aggressively expand beyond their traditional stronghold of Haryana and Himachal, even as they look to expand globally. The key would be to invest in products for specific markets,

which would call for significant investment" said Ramakrishnan.

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Reuters | 19 April 2016, 6:04 PM IST

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Mahindra launches five tractor models under Yuvo range

The new tractors, which will be available in 15 states, are in the 30-45 HP (horsepower) range, thus adding to the company's existing range.

PTI | 05 April 2016, 5:33 PM IST

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J Srikant | ETAuto | 02 April 2016, 11:18 AM IST

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