

Company Overview

With over 40 years of experience in manufacturing and supplying quality and complex components, Happy Forgings Ltd. is an engineering-led manufacturer of complex and safety-critical, heavy forged, and high-precision machined components in India. It is engaged in engineering, process design, testing, manufacturing, and supply of a variety of components that are both margin-accretive and value-additive and also manufactures a wide range of heavy forged and machined products which include crankshafts, front axle beams, steering knuckles, differential cases, transmission parts, pinion shafts, suspension products, and valve bodies across industries for a diversified base of customers. The company primarily caters to domestic and global original equipment manufacturers ("OEMs") manufacturing commercial vehicles in the automotive sector, while in the non-automotive sector, the company caters to manufacturers of farm equipment, off-highway vehicles and manufacturers of industrial equipment and machinery for oil and gas, power generation, railways, and wind turbine industries. The company is a leading player in the domestic crankshaft manufacturing industry and has the second-largest production capacity for commercial vehicles and high-horsepower industrial crankshafts in India. The company's extended focus on machining business and improvement in exports along with incremental business occurring every year has led to a steady growth in revenue and profitability of the company over the years. Also, the critical application of the company's products along with close tolerance and stringent quality requirements of OEMs serve as entry barriers for new players to qualify as suppliers. As EV trends and hydrogen, CNG, and LNG combustion engine technologies become alternate prominent powertrain technologies in the automotive segment, the company's focus on the high horsepower engine segment insulates the company from any such major changes.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Purchase of equipment, plant and machinery;
- ⇒ Prepayment of all or a portion of certain outstanding borrowings availed by our company; and
- ⇒ General corporate purposes

Investment Rationale

Fourth largest engineering-led manufacturer of complex and safety-critical, heavy forged, and high precision machined components in India

Established in 1979 as a forging company specializing in the manufacture of value-added machining products and supplying quality and complex components, the company is well-established within the industries and its customers. Having emerged as the leading player in the domestic crankshaft manufacturing industry and having the second largest production capacity for commercial vehicle and high horsepower industrial crankshafts, the company is the fourth largest engineering-led manufacturer of complex and safety-critical, heavy forged, and high precision machined components in India. The company is focused on developing heavier high-precision critical and value-added products for multiple end-user industries, which typically have extremely closed tolerances.

Diversified business model which is well placed to take advantage of potential alternative engine technologies

The company's business model is well diversified by end-user industries and customer base. Concerning the automotive sector, the company derives revenues from OEMs of commercial vehicles. Within the non-automotive sector, the company manufactures and supplies a wide range of precision components to OEMs of farm equipment, off-highway vehicles, and industrial machinery and equipment for oil and gas, power generation, railways, and wind turbine industries. The recent trends have shown the adoption of EVs growing in the two-wheeler and passenger vehicle industries. However, the adoption of EVs in the heavy commercial vehicle industry has been insignificant due to high up-front costs, range limitations, and charging infrastructure availability in rural and remote areas. Also, heavy-duty vehicles such as trucks, off-highway vehicles, and tractors require more power and have different operating requirements than PVs, which makes it more difficult to switch to EVs. As a result, many heavy-duty vehicles will continue to use traditional internal combustion engines ("ICE") or alternative engine technologies that require crankshafts. In recent times, hydrogen, LNG, and CNG combustion engines are among the most promising alternative engine technologies for the commercial

Issue Details

Offer Period	19 th Dec 2023 - 21 st Dec 2023
Price Band	Rs. 808 to Rs. 850
Bid Lot	17
Listing	BSE & NSE
Issue Size (no. of shares in mn)	11.86
Issue Size (Rs. in bn)	10.09
Face Value (Rs.)	2

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	JM Financial Ltd, Axis Capital Ltd, Equirus Capital Pvt Ltd, Motilal Qswal Investment Advisors Ltd
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Registrar	Link Intime India Pvt Ltd
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Particulars	Pre Issue %	Post Issue %
Promoter	88.24	78.60
Public— Other selling s/h	11.76	8.80
Public (Others)	0.00	12.60
Total	100.00	100.00

(Assuming issue subscribed at higher band)

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vehicle industry. Such technologies also require a crankshaft as a product to operate. With the company engaged in the machining and crankshaft business for heavy horsepower vehicles, any change to combustion engines other than the traditional one will benefit the company over a longer time period.

Valuation

Happy Forgings Ltd. is an engineering-led manufacturer of complex and safety-critical, heavy forged, and high-precision machined components in India. While catering to the global OEMs engaged in the manufacturing of commercial vehicles in the automotive sector and manufacturer of farm equipment and industrial equipment in the non-automotive sector, the company is a leading player in the domestic crankshaft manufacturing industry. Keeping its focus on producing market accretive value-added products and possessing the second-largest production capacity for CVs and high-horsepower industrial crankshafts in India, the company has transitioned from being a forging-led business to a machined component manufacturer. This transition is reflected in the growth of the company over the years and the share the machining component business in the total revenue of the company. The machining component business comprised 70-80% of the total revenue of the company during the fiscal years 2021-2023 which also demonstrates its increased focus on machined products over the years. The company derives 75-80% of its revenue from its top 10 customers. This number is expected to fall to 50% which reflects that the company is building a newer client base and reducing its dependency on the old client base. With the global forging and machining market estimated to grow at a CAGR of 5.2% by 2029 and the Indian crankshaft market for automotive, farm tractors and industrial engines estimated to grow at a CAGR of 8.3% by value between fiscal 2024 and 2029, the company emerges as the one-stop solution to cater to such market demand in the automotive and non-automotive segments. **On the financial performance front, the company's Revenue/EBITDA/PAT grew at a CAGR of 43%/46.6%/55.4% during the FY2021-23 period. On the upper price band, the issue is valued at a P/E of 36.4x based on FY2023 earnings which we feel is fairly valued. We, therefore, recommend a "Subscribe" rating for the issue.**

Key Risks

- ⇒ The company's business is dependent on the performance of certain industries, particularly commercial vehicles, farm equipment, and off-highway vehicles both in the Indian and overseas markets. Any adverse changes in the conditions affecting these industries can adversely impact its business, results of operations, cash flows, and financial condition.
- ⇒ The company is subject to strict performance requirements, including, but not limited to, quality and delivery, by its customers, and any failure by the company to comply with these performance requirements may lead to the cancellation of existing and future orders, recalls, or warranty and liability claims.
- ⇒ The company's business and profitability are substantially dependent on the availability and cost of steel, its primary raw material. Any disruption to the timely and adequate supply of steel, or volatility in the prices of steel may adversely impact business, results of operations, cash flows and financial condition of the company.



Happy Forgings Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Revenue				
Revenue from Operations	5,850	8,600	11,965	6,729
Total Revenue	5,850	8,600	11,965	6,729
Expenses				
Cost of raw material and components consumed	2,573	4,358	5,477	3,209
Operating Expenses				
Changes in inventory	(57)	(475)	33	(259)
Employee benefit expenses	490	687	878	542
Other expenses	1,256	1,721	2,168	1,285
Total Operating Expenses	4,262	6,292	8,556	4,777
EBITDA	1,587	2,309	3,409	1,952
Depreciation and Amortization expenses	358	377	542	317
Other income	59	61	57	28
EBIT	1,288	1,992	2,925	1,664
Finance costs	118	72	125	71
Exceptional Item	-	-	-	-
PBT	1,171	1,920	2,800	1,593
Current tax	316	469	685	392
Deferred Tax charge/ (credit)	(10)	27	29	15
Adjustment of taxes relating to previous year	0	2	(1)	(7)
Total tax	306	498	713	400
PAT	864	1,423	2,087	1,193
Diluted EPS	9.7	15.9	23.3	13.3

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash flow from operating activities	499	803	2,095	804
Cash flow from investing activities	(587)	(1,657)	(1,725)	(1,010)
Cash flow from financing activities	97	825	(370)	212
Net increase/(decrease) in cash and cash equivalents	8	(29)	(0)	6
Cash and cash equivalents at the beginning of the period	20	29	0	0
Cash and cash equivalents at the end of the period	29	0	0	6

Source: RHP, BP Equities Research



Happy Forgings Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Equity and Liabilities				
Equity Share Capital	90	179	179	179
Other Equity	6,362	7,697	9,704	10,854
Total Equity	6,452	7,876	9,883	11,033
Non-Current Liabilities				
Financial Liabilities				
(i)Long term Borrowings	300	740	582	371
Provisions				
Deferred tax liabilities (net)	202	229	230	263
Other non Current liabilities				
Current Liabilities				
Financial Liabilities				
(i)Short Term Borrowings	1,235	1,663	1,603	2,218
(iii)Trade Payable				
Due to micro and small enterprise	64	53	61	58
Due to other than micro and small enterprise	315	389	417	524
(iv)Other financial liabilities	73	205	260	207
Current tax liabilities (net)	19	61	110	92
Provisions	19	27	38	38
Other current liabilities	85	55	78	93
Total Current Liabilities	1,811	2,453	2,566	3,230
Total liabilities	2,312	3,422	3,379	3,865
Total Equity and Liabilities	8,764	11,299	13,262	14,898
Assets				
Non-Current Assets				
Property, plant and equipment	4,145	4,546	6,770	6,962
Capital work in Progress	394	2,123	748	1,015
Intangible Asset	1	16	15	13
Investment in Joint venture	-	4	-	0
Intangible assets under development	10	-	-	9
Financial Assets				
(ii)Other financial assets	72	75	315	364
Non current tax assets(net)	2	2	-	0
Other non current assets	766	278	515	768
Total Non current assets	5,390	7,043	8,362	9,130
Current Assets				
Inventories	1,216	1,840	1,696	2,210
Financial Assets				
Investments				
(i)Trade Receivables	1,658	2,220	3,081	3,230
(ii)Cash and cash equivalents	29	0	0	6
(iii) Loans and Advances	1	2	3	2
(iv)Other Balance with bank	249	14	3	6
(iii)Other financial assets	22	31	7	16
Other current assets	194	142	102	292
Current tax Assets	-	-	2	0
Total Current Assets	3,368	4,250	4,893	5,761
Non Current assets held for sale	6	6	6	6
Total Assets	8,764	11,299	13,262	14,898

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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