

RETAIL EQUITY RESEARCH

Happy Forgings Ltd.

Forgings

SENSEX: 71,315

NIFTY: 21,419

SUBSCRIBE

Price Range Rs.808- Rs.850

A leading crankshaft manufacturer.....

Happy Forgings Ltd. (HFL) is an Indian manufacturer that designs and manufactures forged and high-precision machined products such as crankshafts, front axle beams, steering knuckles, transmission parts, etc., catering to both the automotive and non-automotive sectors. Established in 1979, it has three facilities in Ludhiana and Punjab. With an installed capacity for forging and machining of 107,000 MT and 46,100 MT, it has expanded globally, reaching regions such as Brazil, Italy, Japan, Spain, Sweden, Thailand, Turkey, the U.K., and the U.S.

- The global forging and machining markets are projected to reach USD 97.0 billion and USD 71.2 billion by 2029 at ~5% CAGR while India's forging and machining markets, valued at USD 7.3 billion and USD 5.4 billion in FY24, are projected to grow at a CAGR of 7.1% and 8.4% by FY29. (Source: Ricardo Report).
- Happy Forgings Ltd supplies to the leading five Indian OEMs in the medium and heavy commercial vehicle industry and four of the top five Indian OEMs in the farm equipment industry by their market shares in FY23.
- HFL has consistently shown revenue growth and profitability, with revenues increasing from Rs.585cr in FY21 to Rs.1,196.5cr in FY23 at a CAGR of 43% and profits growing from Rs.86.4cr to Rs.208.7cr at a CAGR of 55% during the same period.
- It has an ROE of 21.1% and an RoCE of 19.5% as of FY23, indicating a good return to shareholders' capital and an efficient use of company resources. The company reported an EBITDA margin and PAT margin of 28.5% and 17.4%, respectively, in FY23.
- The company's total borrowings stood at Rs. 218.5cr in FY23, and the debt-to-equity ratio was 0.2x. The Rs.153cr raised from the issue will be used to repay the debt, which will enhance HFL's profitability in the future.
- HFL plans to introduce aluminium forging and machined components to meet the growing demand for lightweight materials, potentially enhancing the manufacturing of aluminium components for electric vehicles.
- Happy Forging's clientele comprises Ashok Leyland Ltd., International Tractors Ltd., JCB India Ltd., Mahindra & Mahindra Ltd., SML ISUZU Ltd., Swaraj Engines Ltd., Tata Cummins Private Ltd., and more.
- In FY23, 22 and 21, and H1FY24 and H1FY23, the overall forging capacity utilization was 62.9%, 67.3%, 60.4%, 65.9%, and 73.6%, respectively, and the overall machining capacity utilization was 79.2%, 78.2%, 70.6%, 87.97%, and 79.2%, respectively.
- At the upper price band of Rs.850, HFL is available at a P/E of 33.6x (FY24 annualized), which seems in-line compared to its peers. Considering the company's well-established standing in the crankshaft manufacturing industry, notable customers, solid financials, varied product range, global reach with future strategic acquisitions and expansion plans, and new customer additions, we recommend a 'Subscribe' rating for the issue on a short to medium-term basis.

Purpose of IPO

The IPO comprises a fresh issue (Rs. 400cr) and an OFS portion (Rs. 609cr). From the fresh issue's net proceeds, Rs. 171cr, will be utilized for the purchase of equipment, plants, and machinery, and Rs.153cr will be used for repaying debt.

Key Risks

- Rising adoption of electric vehicles, particularly in commercial and farm equipment, may adversely affect the company's financial performance.
- Its business largely depends on its top 10 customers. (70% of the revenue in FY23).

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales	P/E(x)	P/BV(x)	EV/EBITDA(x)	CMP(₹)
Happy Forgings	8,007	1,197	28.5	17.4	22.2	21.1	6.7	38.4	8.1	24.1	850
Bharat Forge Ltd	55,256	12,910	13.8	4.1	10.2	8.0	4.3	116.9	8.2	23.1	1,187
Craftsman Automation	10,795	3,183	21.9	7.8	117.8	19.8	3.4	43.4	7.8	11.6	5,109
Ramkrishna Forgings	13,320	3,193	21.7	7.8	15.4	20.7	4.2	47.8	8.9	8.5	737

Source: Geojit Research, Bloomberg; Valuations of HFL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details	
Date of opening	December 19, 2023
Date of closing	December 21, 2023
Total No. of shares offered (cr.)	1.19
Post Issue No. of shares (cr)	9.4
Price Band	₹808- ₹850
Face Value	₹2
Bid Lot	17 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,450
Maximum application for retail (upper price band for 13 lot)	₹ 1,87,850
Listing	BSE,NSE
Lead Managers	Axis Capital, Equirus Capital, Motilal Oswal Investment Advisors Ltd.
Registrar	Link Intime India Pvt Ltd
Issue size (upper price)	Rs.cr
Fresh Issue	400
OFS	608.6
Total Issue	1,009

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group.	88.24	78.6
Public & Others	11.76	21.4
Total	100	100

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	353
Non-Institutional	15	151.3
QIB	50	504.3
Employee Reservation	-	-
Total	100	1,009

Y.E March (Rs cr) Consol.	FY22	FY23	H1FY24
Sales	860	1,196.5	672.9
Growth (%)	47.0	39.1	-
EBITDA	230.9	340.9	195.2
Margin(%)	26.8	28.5	29.0
PAT Adj.	142.3	208.7	119.3
Growth (%)	64.6	46.7	-
EPS	15.1	22.2	12.7
P/E (x)	56.3	38.4	33.6*
EV/EBITDA(x)	35.7	24.1	42.3
RoE (%)	18.1	21.1	21.6*

*Annualised

Business Description:

Happy Forgings Limited was established on July 2, 1979, and as of FY23, it ranked as India's fourth-largest engineering-led producer of heavy forged, highly precise machined, complex, and safety-critical components. The company's main customers are original equipment manufacturers (OEMs), both domestic and international, who produce commercial vehicles for the automotive industry. In the non-automotive sector, the company serves producers of farm equipment, off-highway vehicles, industrial equipment, and machinery for the oil and gas, power generation, railway, and wind turbine sectors.

Competitive Strengths

- Fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India.
- Integrated manufacturing operations coupled with in-house product and process design capabilities resulting in a diverse product portfolio with increasing value addition
- Diversified business model, well placed to take advantage of potential alternative engine technologies
- Long-standing relationships with customers across industries
- Track record of consistently building capabilities and infrastructure, with focus on capital efficiency
- Experienced Promoters and senior management team
- Track record of healthy financial performance

Business Strategies

- Leverage in-house engineering and product development capabilities to grow the product portfolio and tap growing business opportunities in the industrial markets
- Foray into lightweight forging and machining with introduction of aluminium components
- Increase the wallet share and acquire new business by leveraging existing OEM relationships and adding new customers
- Capitalise on increasing demand from international markets to grow exports
- Expand capacity at the existing manufacturing facilities
- Continue to reduce operating costs and improve operational efficiencies
- Grow inorganically through strategic acquisitions and alliances

Industry outlook

The global forging and machining markets are estimated to be valued at approximately USD 71.9 billion and USD 52.5 billion, respectively, in 2023 and is expected to grow at a CAGR of 5.1% and 5.2% to reach USD 97.0 billion and USD 71.2 billion, respectively, by 2029 (*Source: Ricardo Report*). Further, the forging and machining markets in India are estimated to be valued at approximately USD 7.3 billion and USD 5.4 billion, respectively, in FY24 and is expected to grow at a CAGR of 7.1% and 8.4% to reach USD 10.2 billion and USD 8.0 billion, by FY29, respectively (*Source: Ricardo Report*).

Promoter and promoter group

The Promoters of the company are Paritosh Kumar, Ashish Garg, Megha Garg, Ayush Capital & Financial Services Private Limited, Garg Family Trust, Paritosh Kumar Garg (HUF) and Ashish Garg & Sons (HUF).

Brief Biographies of directors

- **Paritosh Kumar** is the Chairman and Managing Director of the Company. He has been associated with the Company since incorporation and accordingly has over 44 years of experience in the industrial sector. He is involved in the strategic decision making of the Company, oversees the Company's business activities and is involved in setting up the governance standards of the Company.
- **Ashish Garg** is a Managing Director of the Company. He has approximately 17 years of experience in the industrial sector. He currently manages the Company's business operations, financial performance, growth strategies and investments in different capacities and product developments.
- **Megha Garg** is a Whole-time Director of the Company. She has approximately eight years of experience in the industrial sector. She currently handles the online digital marketing of the Company to engage prospects and capture leads.
- **Narinder Singh Juneja** is the Chief Executive Officer and Whole-time Director of the Company. He has over 35 years of experience in the industrial sector.
- **Prakash Bagla** is the Nominee Director of the Company. He joined MO Alternates in 2007 and is responsible for deal sourcing, investing, monitoring and managing exits. He is currently designated as managing director at MO Alternates.
- **Satish Sekhri** is an Independent Director of the Company. He is currently on the board of Harita Fehrer Limited, JK Files and Engineering Limited and Rico Auto Industries Limited.
- **Vikas Giya** is an Independent Director of the Company. He is serving as a full time partner in Anup Kumar Jain and Co., Chartered Accountants since December 15, 2005.
- **Ravindra Pisharody** is an Independent Director of the Company. Prior to joining the Company, he served as an executive director on the board of Tata Motors Limited, and as a marketing director with BP India Private Limited.
- **Rajeswari Karthigeyan** is an Independent Director of the Company. Prior to joining the Company, she served as an associate director of CRISIL Ratings Limited.
- **Atul Behari Lall** is an Independent Director of the Company. He has more than 29 years of experience in the electronics manufacturing services industry. He is currently a managing director on the board of Dixon Technologies (India) Limited.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	H1FY24
Sales	860	1,196.5	672.9
% change	47	39.1	-
EBITDA	230.9	340.9	195.2
% change	45	48	-
Depreciation	37.7	54.2	31.7
EBIT	193.1	286.8	163.6
Interest	7.2	12.5	7.1
Other Income	6.1	5.7	2.8
Exceptional items	-	-	-
PBT	192	280	159.3
% change	64	45.8	-
Tax	49.8	71.3	40.0
Tax Rate (%)	26	25	25
Reported PAT	142.3	208.7	119.3
Adj	-	-	-
Adj. PAT	142.3	208.7	119.3
% change	64.6	46.7	-
Post issue No. of shares (cr)	9.4	9.4	9.4
Adj EPS (Rs)	15.1	22.2	12.7
% change	64.6	46.7	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	H1FY24
Cash	1.5	0.3	1.2
Accounts Receivable	222	308.1	323
Inventories	184	169.6	221.0
Other Cur. Assets	15	11	29.9
Investments	11.0	32.2	37.9
Deff. Tax Assets	0.2	-	-
Net Fixed Assets	454.6	677	696.2
CWIP	212.3	74.8	101.5
Intangible Assets	1.6	1.5	2.2
Other Assets	27.8	51.5	76.8
Total Assets	1,130	1,326	1,490
Current Liabilities	49.7	55.5	67.4
Provisions	25.6	26.8	30.2
Debt Funds	240.4	218.5	259
Other Fin. Liabilities	20.5	26.0	20.7
Deferred Tax liability	6.1	11.0	9.2
Equity Capital	17.9	17.9	17.9
Reserves & Surplus	769.7	970.4	1,085.4
Shareholder's Fund	787.6	988.3	1,103.3
Total Liabilities	1,130	1,326	1,490
BVPS (Rs)	83.6	104.9	117.1

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	H1FY24
PBT Adj.	192	280	159.3
Non-operating & non cash adj.	40.2	71.2	37.9
Changes in W.C	-151.9	-141.8	-116.7
C.F. Operating	80.3	209.5	80.4
Capital expenditure	-190.8	-174.6	-101
Change in investment	-	-	-
Sale of investment	23.0	2.1	-0.25
Other invest.CF	2.1	0.5	0.36
C.F - investing	-165.7	-172.0	-101.0
Issue of equity	-	-	-
Issue/repay debt	89.3	-25.1	40
Dividends paid	-	-	-12
Other finance.CF	-6.8	-11.9	-7.7
C.F - Financing	82.5	-37.0	21.2
Change. in cash	-2.9	0.5	0.6
Opening Cash	2.9	0.0	0.01
Closing cash	0.0	0.5	0.6

RATIOS

Y.E March	FY22	FY23	H1FY24
Profitab. & Return			
EBITDA margin (%)	26.8	28.5	29.0
EBIT margin (%)	22.5	24.0	24.3
Net profit mgn.(%)	16.5	17.4	17.7
ROE (%)	18.1	21.1	21.6*
ROCE (%)	16.2	19.5	9.9
W.C & Liquidity			
Receivables (days)	82	81	86
Inventory (days)	144	117	135
Payables (days)	19	15	16
Current ratio (x)	5.8	6.3	6.3
Quick ratio (x)	4.5	5.6	4.8
Turnover & Levq.			
Net asset T.O (x)	2.0	2.1	1.0
Total asset T.O (x)	0.9	1.0	0.5
Int. covge. ratio (x)	27.0	23.0	22.9
Adj. debt/equity (x)	0.3	0.2	0.2
Valuation ratios			
EV/Sales (x)	9.6	6.9	12.3
EV/EBITDA (x)	35.7	24.1	42.3
P/E (x)	56.3	38.4	33.6*
P/BV (x)	10.2	8.1	7.3

*Annualised

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