

| The Issue | |
|-------------------------------|------------------|
| Type of Issue | Rs. Mn |
| Fresh Issue | 4,000 |
| Offer for Sale | 6,086 |
| Total Issue Size | 10,086 |
| Post-Issue Market cap* | 80 bn |
| Lot size | 17 shares |

*At Upper Price Band

| Issue Break-Up | |
|---------------------------|-----------------|
| Reservation for | % of Issue |
| QIB | 50% |
| NII | 15% |
| Retail | 35% |
| Total | 100% |
| Indicative Offer Timeline | |
| | Indicative Date |
| Bid/Offer Opening Date | 19th Dec 2023 |
| Bid/Offer Closing Date | 21th Dec 2023 |
| Basis of allotment | 22nd Dec 2023 |
| Credit of shares to Demat | 26th Dec 2023 |
| Listing of shares | 27th Dec 2023 |
| Use of Proceeds | |
| Purchase of PPE | Rs 1.7bn |
| Prepayment of debt | Rs 1.5bn |

| | |
|------------------|---------------------------------------|
| Manager | JM Financial, Equirius, Motilal Oswal |
| Registrar | Link Intime |

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Leading player in machined forged components.. SUBSCRIBE

Company Overview: Happy Forgings is the fourth largest manufacturer of forged and high precision machined components in India as of FY23 in terms of forgings capacity (Source: Ricardo Report).

The company through its vertically integrated operations, is engaged in engineering, process design, testing, manufacturing, and supply of a variety of components that are both margin accretive and value-additive.

It primarily caters to domestic and global OEMs manufacturing CVs, while in the non-auto sector, it caters to farm equipment, OHV and manufacturers of industrial equipment and machinery for O&G, power generation, railways and wind turbine industries.

The company 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 has emerged as a leading player in the domestic crankshaft manufacturing industry with the second largest production capacity for CV and high horse-power industrial crankshafts in India (Source: Ricardo Report). Its focus on producing margin accretive value-added products has led to our transition from being a forging led business to a machined components manufacturer. **Segment mix stands as follows: Auto - 43.6%; Non-Auto - 56.4%.**

Some of its key customers include AAM India, Ashok Leyland, Bonfiglioli Transmissions, Dana India, IBCC Industries, International Tractors, JCB India, Liebherr CMctec India, M&M, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, SML ISUZU, Swaraj Engines, Same Deutz Fahr India, Tata Cummins, Watson & Chalin India (Hendrickson India Commercial Vehicle Systems) and Yanmar Engine Manufacturing India. The company also serves customers in Brazil, Italy, Japan, Spain, Sweden, Thailand, Turkey, UK and the US.

Valuation and View: On post-issue basis, the IPO is priced at 38.4x/33.6x FY23/FY24E EPS which is ~30% discount to the industry average (Bharat Forge and RK Forge). Happy has grown its revenue/EBITDA/PAT at a CAGR of 43%/47%/55% led by improved CV cycle, higher utilizations and better scale. Company has one of the leading capacities in CV/Industrial Forging components catering to diversified OEMs and exports as well. Moreover, EV agnostic platforms launched by the company insulates it from sharp increase in EV penetration. **Thus, due to its attractive valuations and profitable margin profile, we assign a SUBSCRIBE rating to the IPO.**

Happy Forgings

Happy's key financial summary

| Financial summary (Rs. mn) | FY21 | FY22 | FY23 | 1HFY24E |
|-------------------------------|--------------|--------------|---------------|--------------|
| Net sales | 5,850 | 8,600 | 11,965 | 6,729 |
| Gross profit | 3,334 | 4,717 | 6,455 | 3,779 |
| Gross margin (%) | 57.0% | 54.8% | 53.9% | 56.2% |
| Staff cost | 490 | 687 | 878 | 542 |
| Other expenses | 1,256 | 1,721 | 2,168 | 1,285 |
| Adj. EBITDA | 1,587 | 2,309 | 3,409 | 1,952 |
| Adj. EBITDA margin (%) | 27.1% | 26.8% | 28.5% | 29.0% |
| Dep | 358 | 377 | 542 | 317 |
| EBIT | 1,230 | 1,931 | 2,868 | 1,636 |
| EBIT margin (%) | 21.0% | 22.5% | 24.0% | 24.3% |
| Fin. Costs | 118 | 72 | 125 | 71 |
| Other income | 59 | 61 | 57 | 28 |
| PBT | 1,171 | 1,920 | 2,800 | 1,593 |
| PBT margin (%) | 20.0% | 22.3% | 23.4% | 23.7% |
| Tax | 306 | 498 | 713 | 400 |
| JV Profit/minorities | | 0 | 0 | |
| Cons PAT | 864 | 1,423 | 2,087 | 1,193 |
| Cons PAT margin (%) | 14.8% | 16.5% | 17.4% | 17.7% |

Key Risks:

- **Customer concentration risk:** Company derives ~15%/~34%/~47% of its sales from top customer/top three customers/top five customers respectively.
- **Dependent on CV cycle:** Happy Forgings derives ~44%/37% of its revenue from CV/Farm Equipments. Any slowdown in CV/Farm Equipment could impact its revenue.
- **Product risk:** Company derives ~45% of its revenue from Crankshaft. Any product led risk could impact the revenue of Happy

Pre-issue and post-issue holding structure

| | Pre-issue | Post-issue* |
|-----------------------------|--------------------|--------------------|
| Shareholding pattern | Holding (%) | Holding (%) |
| Promoter | 88.2% | 78.6% |
| Public | 11.8% | 21.4% |
| Total | 100.0% | 100.0% |

Selling shareholders

| Name | No. of shares (mn) | Amt (Rs bn) |
|------------------------------------|--------------------|-------------|
| Paritosh Kumar (HUF) | 4.9 | 41.8 |
| India business excellence Fund-III | 2.2 | 19.0 |
| Total | 7.1 | 60.8 |

Happy Forgings

Happy segment wise revenue mix (%)

| Segment | FY23 | FY22 | FY21 |
|----------------|--------|--------|--------|
| Automotive | 43.7% | 42.7% | 37.5% |
| Non-Automotive | 56.4% | 57.3% | 62.5% |
| Total | 100.0% | 100.0% | 100.0% |

Happy end-user wise revenue mix (%)

| Segment | FY23 | FY22 | FY21 |
|----------------|-------|-------|-------|
| CV | 43.7% | 42.7% | 37.5% |
| Farm Equipment | 36.8% | 40.5% | 43.9% |
| OHV | 15.9% | 14.8% | 16.6% |
| Industrial | 3.7% | 2.0% | 2.0% |

Happy process wise revenue mix (%)

| Segment | FY23 | FY22 | FY21 |
|-------------------|--------|--------|--------|
| Forged products | 21.3% | 24.6% | 27.1% |
| Machined products | 78.7% | 75.4% | 72.9% |
| | 100.0% | 100.0% | 100.0% |

Happy segment wise number of customers (In Nos.)

| Segment | FY23 | FY22 | FY21 |
|----------------|-----------|-----------|-----------|
| CV | 14 | 13 | 10 |
| Farm Equipment | 24 | 21 | 21 |
| OHV | 4 | 4 | 5 |
| Industrial | 24 | 19 | 19 |
| Total | 66 | 57 | 55 |

Happy Forgings

Happy Forgings product portfolio

Crankshafts

10 to 210 kgs



Front Axle Components

Front Axle Beam (70 to 195 kgs) + Steering Knuckle (27 to 45 kgs)



Differential Case

(5 - 40 kgs)



Suspension Products

Brake Flange + Suspension Bracket (5 to 16 kgs)



Wind Turbine Industry

Planetary Carrier (5 – 45 kgs) + Pinion Shaft (84 to 200 kgs) + Housing (35 to 105 kgs)



Railway Parts

Bush + Connecting Rod + Camshaft + Piston Pin (5 to 40 kgs)



Oil and Gas Industry

Valve Body (45 – 90 kgs)



Transmission Parts

Shafts + Crown Wheel + Ring Gears (5 – 95 kgs)



End Use Industries



Commercial Vehicle



Farm Equipment



Off Highway



Wind Turbine



Railways



Oil and Gas



Power Generation

Happy Forgings

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 continuous value addition
- Diversified business model, well placed to take advantage of potential alternative engine technologies
- Long-standing relationship 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

Happy Forgings revenue from customers (%)

| Customer | FY23 | FY22 | FY21 |
|------------|-------|-------|-------|
| Customer A | 16.5% | 12.0% | 12.5% |
| Customer B | 4.8% | 5.1% | 7.4% |
| Customer C | 0.4% | 0.0% | 0.0% |
| Customer D | 1.3% | 1.2% | 0.8% |
| Customer E | 0.3% | 0.0% | 0.0% |

Product basket

Crankshaft



Differential case



Planetary Carrier



Front Axle Beam



Steering Knuckle



Pinion Shaft



Shafts

Crown Wheel

Ring Gear

Happy Forgings

Happy Forgings annual installed capacity, annual average available capacity, actual production and capacity utilisation (%)

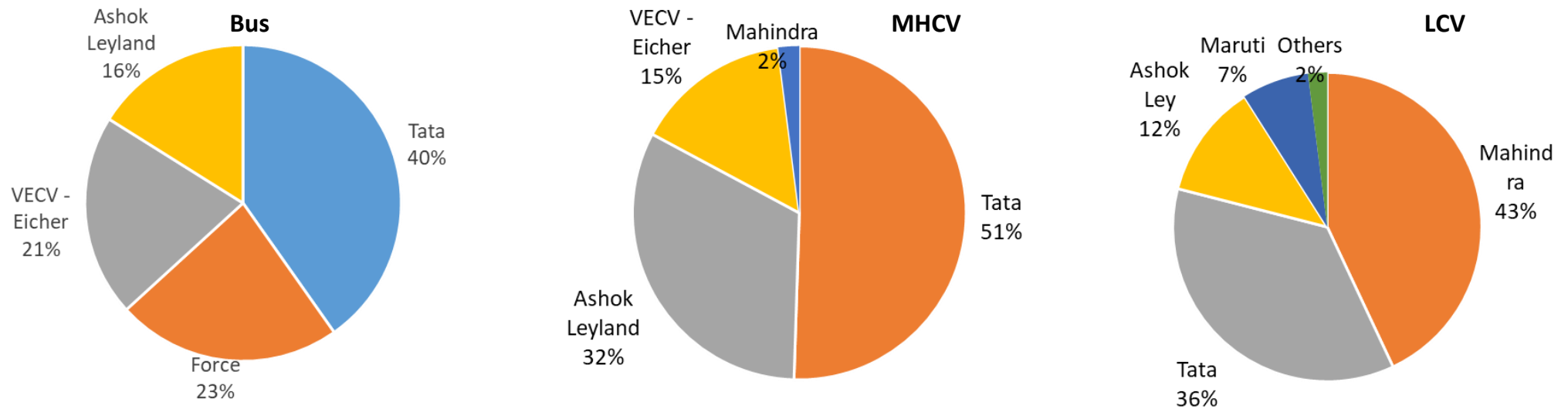
| | FY23 | | | FY22 | | | FY21 | | |
|-----------------------|-----------------------------|------------------------|-----------------|------------------------------|------------------------|-----------------|-----------------------------|------------------------|-----------------|
| Facility | Avg installed capacity (MT) | Actual production (MT) | Utilisation (%) | Avg in-stalled capacity (MT) | Actual production (MT) | Utilisation (%) | Avg installed capacity (MT) | Actual production (MT) | Utilisation (%) |
| Kanganwal Facility I | 14,000 | 11,397 | 81.4% | 14,000 | 10,284 | 73.5% | 14,000 | 10,230 | 73.1% |
| Kanganwal Facility II | 53,000 | 36,421 | 68.7% | 53,000 | 34,049 | 64.2% | 53,000 | 30,221 | 57.0% |
| Dugri Facility | 40,000 | 11,369 | 28.4% | 40,000 | 10,183 | 25.5% | - | - | - |
| Total | 107,000 | 59,187 | 55.3% | 107,000 | 54,516 | 50.9% | 67,000 | 40,451 | 60.4% |

Happy Forgings segment wise customers:

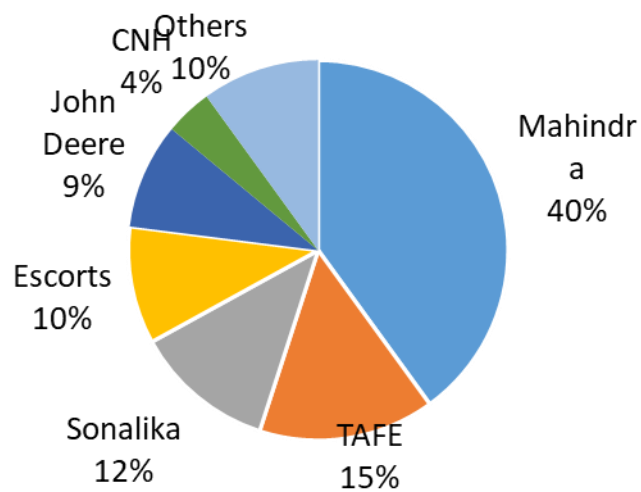
| | |
|-----------------------|---|
| Automotive | |
| Commercial Vehicles | Ashok Leyland Limited, VE Commercial Vehicles Limited, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, AAM India Manufacturing Corporation Private Limited, SML ISUZU Limited and Mahindra & Mahindra Limited |
| Non-Automotive | |
| Farm equipment | Escorts Kubota Limited, International Tractors Limited, Yanmar Engine Manufacturing India Private Limited, Same Deutz Fahr India Private Limited and Swaraj Engines Limited |
| Off-highway | Watson & Chalin India Private Limited (Hendrickson India Commercial Vehicle Systems), JCB India Limited and Dana India |
| Industrial | Tata Cummins Private Limited, Bonfiglioli Transmissions Private Limited, IBCC Industries (India) Private Limited, Liebherr CMCTec India Private Limited and IGW India Technologies Private Limited |

Industry outlook

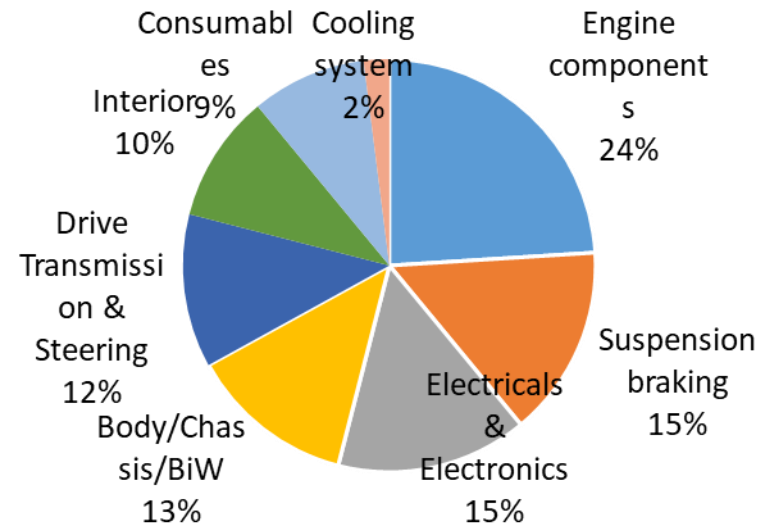
Market share of key players in CV



Market share of key players in Farm equipment



Segment wise revenue mix by volume



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

DISCLOSURE

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