



IPO Report

17th Dec'23

Snapshot

Happy forgings Ltd is the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India as of Fiscal 2023 in terms of forgings capacity .Company through its vertically integrated operations, are engaged in engineering, process design, testing, manufacturing, and supply of a variety of components that are both margin accretive and value-additive.

VALUATION

Company is bringing the issue at price band of Rs 808-850 per share at p/e multiple of 34x on post issue annualized H1FY24 PAT basis.

Company being fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India has integrated manufacturing operations coupled with in-house product and process design capabilities resulting in a diverse product portfolio with increasing value addition. Company's diversified business model, well placed to take advantage of potential alternative engine technologies along with long-standing relationships with customers across industries. Also, company's track record of consistently building capabilities and infrastructure, with focus on capital efficiency & experienced promoters and senior management team is looking decent destination to deploy the funds in.

Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	808-850
Opening date of the issue	19th Dec '2023
Closing Date of the issue	21st Dec '2023
No of shares pre issue	89,499,000 Eq Shares
Issue Size	Rs 979-1009 Cr
No of shares	12,110,415 – 11,865,802 Sh
Fresh issue	Rs 400 Cr
Offer For Sale	7,159,920 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	17

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 5932900 Eq Shares)
Non-Institutional	15% of the offer (Approx 1779871 Eq Shares)
Retail	35 % of the offer (Approx 4153031 Eq Shares)
Lead managers	Axis Capital, JM Financial, Equirus Capital, Motilal Oswal
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

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

Company commenced operations in 1979 primarily as a forging company, and have since evolved into a manufacturer specializing in the manufacturing of value added machined products. With over 40 years of experience of manufacturing and supplying quality and complex components, company is well established within the industries and customers company cater to . In terms of forging capacity as of Fiscal 2023, company is the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined component in India.

Long-standing relationships with customers across industries

Some of company's customers include AAM India Manufacturing Corporation Private Limited, Ashok Leyland Limited, Bonfiglioli Transmissions Private Limited, Dana India, IBCC Industries (India) Private Limited, International Tractors Limited, JCB India Limited, Liebherr CMCTec India Private Limited, Mahindra & Mahindra Limited, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, SML ISUZU Limited, Swaraj Engines Limited, Same Deutz Fahr India Private Limited, Tata Cummins Private Limited, Watson & Chalin India Private Limited (Hendrickson India Commercial Vehicle Systems) and Yanmar Engine Manufacturing India Private Limited.

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

Company's business model is well diversified by end use industry and customer base. In automotive sector, company derive its revenues from OEMs of commercial vehicles. Within the non-automotive sector, company manufacture and supply 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.



COMPANY BACKGROUND

Company primarily cater to domestic and global original equipment manufacturers (“OEMs”) manufacturing commercial vehicles in the automotive sector, while in the non-automotive sector, company cater 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. With over 40 years of experience of manufacturing and supplying quality and complex components according to customers specifications, company have emerged as a leading player in the domestic crankshaft manufacturing industry with the second largest production capacity for commercial vehicle and high horse-power industrial crankshafts in India ,

Company’s focus on producing margin accretive value-added products has led to its transition from being a forging led business to a machined components manufacturer. Company’s revenue from sale of machined products has increased from ₹3,992.02 million in Fiscal 2021 (representing 72.88% of company’s revenue from sale of products in such Fiscal) to ₹8,392.33 million in Fiscal 2023 (representing 78.66% of company’s revenue from sale of products in such Fiscal), at a CAGR of 44.99% which demonstrates company’s increased focus on machined products.

Company is among the few companies in India with the capability to manufacture and supply high precision safety critical components to leading OEMs including manufacturers of commercial vehicles, farm equipment, offhighway and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries.

The critical application of company’s products, along with their heavy weight, closed tolerance and stringent quality requirements of OEMs serve as entry barriers for new players to qualify as suppliers or in their ability to replace company in supplying precision products company manufacture . Further, company’s focus on the high HP engine segment insulates company from any potential electric vehicle (“EV”) disruption as hydrogen, compressed natural gas (“CNG”) and liquified natural gas (“LNG”) combustion engine technologies are expected to become prominent alternate powertrain technologies in this segment and crankshaft as a product is compatible to such combustion engines with minimal or no alterations .Company is a supplier to each of the top five Indian OEMs, by market share, in the medium and heavy commercial vehicle industry and four of the top five Indian OEMs in the farm equipment industry by market share, in Fiscal 2023 .

Company’s long-standing relationships with its customers has positioned company as a trusted supplier for several Indian and global OEMs. As of March 31, 2023, 2022, 2021 and as of September 30, 2023 and 2022, company’s customers who have been associated with company for more than 10 years contributed ₹8,106.38 million, ₹6,235.28 million, ₹4,418.70 million, ₹4,465.72 million and ₹4,379.85 million in Fiscal 2023, 2022 and 2021 and in the six months ended September 30, 2023 and 2022, respectively, representing 75.98%, 79.38%, 80.67%, 73.07% and 83.05% of company’s revenues from sale of products during the respective periods, which indicates the depth of company’s relationships with them. As of September 30, 2023, company served customers across nine countries including Brazil, Italy, Japan, Spain, Sweden, Thailand, Turkey, the United Kingdom and the United States of America. In Fiscal 2023, 2022, 2021 and the six months ended September 30, 2023 and 2022, company’s revenue from contract with customers outside India was ₹1,383.51 million, ₹868.14 million, ₹481.05 million, ₹1,278.80 million and ₹627.12 million representing 12.89%, 10.94%, 8.77%, 20.75% and 11.87% of company’s total revenue from contract with customers during such periods, respectively.

Company have received numerous certificates and awards over the years, including the “Supplier Excellence Award” for delivery performance at the AAM India Supplier Event 2023, certificate of appreciation under the strategic theme “Business Excellence Process/ Digitalisation” in 2023 from Escorts Kubota Limited, “Outstanding Contribution in Overall Performance Excellence” award in 2017 from VE Commercial Vehicles Limited, a joint venture of the Volvo Group and Eicher Motors, “Overall Excellence in Cost Delivery and Quality” award at Partners Meet 2016 organised by Escorts Kubota Limited, “Proactive Cost Competitiveness” award for the year 2015-16 at Supplier Summit 2016 organised by Ashok Leyland and the “Best Supplier (Forging)” from a gear manufacturer in 2015.

As of the date company own and operate three manufacturing facilities, of which two are located at Kanganwal in Ludhiana, Punjab and one is located at Dugri in Ludhiana, Punjab. Company’s annual aggregate installed capacity for forging and machining has increased from 67,000.00 MT and 29,500.00 MT, respectively, as of March 31, 2021 to 107,000.00 MT and 46,100.00 MT as of March 31, 2023 and further to 120,000.00 MT and 47,200.00 MT as of September 30, 2023, respectively.



INVESTMENT RATIONALE

<p><i>Integrated manufacturing operations coupled with in-house product and process design capabilities resulting in a diverse product portfolio with increasing value addition</i></p>	<p>Company's journey from manufacturing basic forged and machined components to manufacturing complex and safety critical products with closed tolerances, involved expansion of its capabilities in both light and heavy forging and machining. In the initial years of company's operations, company focused on manufacturing components such as forged bicycle pedals, camshaft, bull gears and semi machined transmission parts. As company gained experience and expanded its engineering capabilities, company forayed into products that required higher levels of precision, strength, and durability. Company expanded its capabilities to manufacture complex and safety critical parts, resulting in a diverse product portfolio of machined parts such as crankshaft, transmission parts, suspension products and other products for commercial vehicles, farm equipment, and off-highway vehicles. In addition, company also expanded its capabilities to manufacture and supply components with applications in industries including oil and gas, power generation, railways and wind turbines. As of March 31, 2023, company is only the second company in India to have a 14,000 tonne forging press or higher forging press and is among four companies in India that possess a 8,000 tonne forging press or higher forging press . Company's diverse range of products and continuous efforts to develop new products, have allowed it to serve a wide range of industries and customers, which has strengthened its ability to attract new customers. Company strive to continuously evaluate new businesses and add more value-added products to its portfolio to improve margins and profit realizations. In Fiscal 2023, 2022, 2021 and the six months ended September 30, 2023 and 2022, company's EBITDA margin was 28.49%, 26.85%, 27.14%, 29.01% and 30.32%, respectively.</p>
<p><i>Track record of consistently building capabilities and infrastructure, with focus on capital efficiency</i></p>	<p>Company operate three manufacturing facilities with two manufacturing facilities located at Kanganwal in Ludhiana, Punjab, spread over a built up area of 184,765.50 square feet and 439,128.00 square feet and one located at Dugri in Ludhiana, Punjab, spread over a built up area of 1,771,208.46 square feet. While one of its manufacturing facilities at Kanganwal in Ludhiana, Punjab is dedicated to forging operations, company's remaining facilities are equipped with both forging and machining capabilities. The strategic location of company's manufacturing facilities near inland container depot facility in Ludhiana and dedicated freight corridor connecting Ludhiana to Mumbai, Maharashtra and Dankuni, West Bengal provides company with cost and logistical advantages.</p>
<p><i>Experienced Promoters and senior management team</i></p>	<p>Company benefit from the experience of its management team which has extensive knowledge in the precision components' manufacturing industry, including operations, business development and customer relationships. In particular, company's Promoter, Chairman and Managing Director, Paritosh Kumar, founded Company in 1979 and continues to provide guidance and oversees overall performance of Company. Company's Promoter and Managing Director, Ashish Garg, holds a master's degree in science in manufacturing systems engineering from University of Warwick, United Kingdom and has over 17 years of experience in the field of business development and financial management and drives new investment and growth strategy besides managing day to day operations of Company.</p>



OBJECTS OF OFFER

Offer for Sale

The Offer comprises a fresh issue of Equity Shares aggregating up to ₹4,000 million by Company and an offer for sale of up to 7,159,920 Equity Shares by the Selling Shareholders.

Fresh Issue

Company proposes to utilise the Net Proceeds from the Fresh Issue towards funding the following objects:

1. Purchase of equipment, plant and machinery;
2. Prepayment of all or a portion of certain outstanding borrowings availed by Company; and
3. General corporate purposes.

RISKS

Company's business largely depends upon company's top 10 customers. In Fiscal 2023, 2022, 2021 and in the six months ended September 30, 2023 and 2022, company's revenue from top 10 customers was ₹8,384.81 million, ₹6,418.99 million, ₹4,634.06 million, ₹4,610.83 million, and ₹4,286.12 million, representing 70.08%, 74.64%, 79.22%, 68.52% and 71.46% of company's revenue from operations, respectively. The loss of any of these customers could have a material adverse effect on company's business, financial condition, results of operations and cash flows.

Source:RHP

INDUSTRY OVERVIEW

INDIAN AUTOMOTIVE INDUSTRY

India Commercial Vehicle Market, by Segment

India CV production registered a growth of 4.5% CAGR from Fiscal 2014 to Fiscal 2023. Rising demand for pickup trucks, owing to the growing e-commerce and logistics sector is responsible for the growth in this period. HCV more than 16 tonnes registered the highest CAGR of 11.6% during Fiscal 2014 to Fiscal 2023 due to increased government expenditure on infrastructure, BS-VI transition and growth in mining and quarrying sector which is about 3% of the GDP.

The India CV production market is expected to grow at a CAGR of 7.1% over the period Fiscal 2024 to Fiscal 2029 due to rise in government initiatives such as Make in India campaign and PLI ("Production Linked Incentive") scheme which aims to provide financial incentives to boost manufacturing and attract investments in the commercial vehicle value chain. Moreover, Government's commitment to invest in major infrastructure projects will play an important role in boosting CV demand. An investment of US\$ 2.5 billion has been announced in 2023 by the National Bank for Financing Infrastructure and Development ("NaBFID") to fund infrastructure projects related to energy, urban infrastructure, and airports.

With implementation of the scrappage policy from April 2023 onwards and with more than 50 to 55 percent of the existing vehicles above the age of 10 years in Medium and Heavy CVs, these segments are expected to grow at a CAGR of 9.4% and 5.2% respectively during Fiscal 2024 to Fiscal 2029. LCV (3.5 tonnes – 7.5 tonnes) is expected to show a growth of CAGR 9.5% on account of government policies ease of axle norms which will allow freight operators to carry 20-25% extra over payload. Hence, large fleet operators, carrying dense bulk commodities, would be able to carry more freight, improving their margins.

BEV experienced a marginal increase in share from 0% in calendar year 2014 to 0.1% in calendar year 2022. Light Commercial Vehicle BEV are currently available in the Indian market, whereas there are several start-ups and established OEMs working in this space to bring out an electric LCV. In 2019, Government of India sanctioned over 5,000 electric buses in 65 cities for intracity and intercity operations under FAME-II scheme. BEV segment is expected to grow to 2.8% by calendar year 2029 from 0.3% in calendar year 2023, but ICE technology share is expected to see a marginal degrowth in share from 99.7% in calendar year 2023 to 97.2% in calendar year 2029. With regards to Medium and Heavy-duty commercial vehicles it is expected limited to no adoption at least for the foreseeable future given the battery size & payload requirements. Major developments for electric vehicle is experienced in the Light Commercial Vehicle space.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	5849.58	8600.46	11965.30	6729.00
Total Expenditure (B)	4262.12	6291.59	8555.9	4776.86
EBIDTA	1587.46	2308.87	3409.40	1952.14
EBIDTA Margin	27.14	26.85	28.49	29.01
Other Income	58.55	60.59	57.41	28.33
Depreciation	357.56	377.40	541.82	316.53
EBIT	1288.45	1992.06	2924.99	1663.94
Interest	117.84	71.59	124.75	71.34
PBT	1170.61	1920.47	2800.24	1592.60
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	1170.61	1920.47	2800.24	1592.60
Share of profit in associate	0.00	0.05	0.05	0.00
PBT	1170.61	1920.52	2800.29	1592.60
Tax	306.13	497.63	713.28	399.61
PAT	864.48	1422.89	2087.01	1192.99
NPM	14.78	16.54	17.44	17.73
ROE %	13.40	18.07	21.12	10.81
EPS	9.66	15.90	23.32	13.33
Eq Cap	89.50	179.00	179.00	179.00
Net Worth	6,451.59	7,876.24	9,883.07	11,033.34

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Happy Forgings Limited*</i>	<i>2.00</i>	<i>---</i>	<i>11965.30</i>	<i>23.32</i>	<i>110.43</i>	<i>21.12</i>
Peers						
Bharat Forge Limited#	2.00	102.63	129102.59	11.35	144.02	7.88
Craftsman Automation Limited#	5.00	43.92	31826.00	117.56	651.68	18.04
Ramkrishna Forgings Limited#	2.00	49.36	31928.95	15.43	82.67	18.77
Sona BLW Precision Forgings Limited#	10.00	85.56	26550.10	6.75	39.12	17.26



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