

# Happy Forgings Ltd

**Crafting precision, forging excellence**




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Happy Forging Ltd (HFL) stands as India's fourth-largest engineering-led manufacturer of heavy forged and precision machined components as of FY23, boasting a dominant position in the market. Their vertically integrated operations cover engineering, manufacturing, and supply for various industries, focusing on OEMs in automotive and non-automotive sectors. Over 40 years of experience has propelled them into a leading position in crankshaft manufacturing, showcasing the second-largest capacity for commercial vehicle and high horsepower industrial crankshafts in India.

Their diverse product range includes heavy forged and machined components serving industries like automotive, off-highway vehicles, oil and gas, power generation, railways, and wind turbines. They specialize in producing safety-critical components for leading OEMs, securing significant market entry barriers due to stringent quality requirements. Holding strong relationships with top Indian and global OEMs, they've consistently captured significant revenues from long-standing customer collaborations.

Noteworthy investments in machinery and infrastructure expansion, especially the installation of a 14,000-ton forging press, position them as a key player capable of manufacturing heavier and more precise products. HFL's commitment to capital efficiency reflects in their record of the highest ROCE among peers in FY23. With a continuous focus on upgrading facilities and technology, they aim to drive productivity and leverage future growth opportunities.

Operating three manufacturing facilities in Ludhiana, Punjab, HFL's aggregate capacity for forging and machining has significantly increased over the years. They emphasize waste reduction, weight optimization, value engineering, and automation to boost production efficiency. Their vertically integrated facilities encompass various processes, enabling the production of a wide range of high-precision components.

## Industry Castings & Forgings

### Issue Details

Listing	BSE & NSE
Open Date	19 <sup>th</sup> Dec 2023
Close Date	21 <sup>st</sup> Dec 2023
Price Band	INR 808-850
Face Value	INR 02
Market Lot	17 shares
Minimum Lot	1 Lot

### Issue Structure

Offer for Sale	60.36%
Fresh Issue	39.64%
Issue Size (Amt)	INR 1,009 cr
Issue Size (Shares)	1,18,65,802
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	8,94,99,000
Post issue sh (nos)	9,42,04,882
Post issue M Cap	INR 8,007 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter & group	88.24	76.23
Public	11.76	23.77
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

## Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (INR)	BVPS (INR)	RoE (%)	RoIC (%)	P/E (X)	EV/Sales (X)	EV/EBITDA (X)
FY21	585.0	158.7	86.4	27.1	14.8	9.2	68.5	13.4	16.0	92.6	13.9	51.2
FY22	860.0	230.9	142.3	26.8	16.5	15.1	83.6	18.1	18.8	56.3	9.6	35.7
FY23	1196.5	340.9	208.7	28.5	17.4	22.2	104.9	21.1	23.8	38.4	6.9	24.1

## Growth Strategies

### **Leverage in-house engineering and product development capabilities to grow product portfolio and tap growing business opportunities**

HFL's expertise in crafting precision components for diverse sectors like automotive and beyond positions them to excel in industrial markets. With a keen eye on sectors such as defense, power generation, oil and gas, and wind turbines, they're expanding their customer base and capabilities to meet growing demand for machined components.

### **Foray into lightweight forging and machining with introduction of aluminium components**

HFL plans to diversify by introducing aluminum forging and machining, aligning with the market's need for lightweight materials as the growing demand for lightweight materials, notably in automotive, aerospace, and defense industries, driven by the need for fuel efficiency and performance improvements. Aluminum components, prized for their strength, corrosion resistance, and weight advantages, are highly sought after across sectors like automotive, aerospace, and defense. This strategic move aims to seize new opportunities and potentially expand into manufacturing tailored components for electric vehicles with focused investments.

### **Capitalise on increasing demand from international markets to grow exports**

HFL has a global reach, serving customers across nine countries. The shift from internal combustion engines to electric vehicles positions India as a key hub for critical engine parts, and HFL aims to harness its engineering and machining strengths in this evolving landscape. They're expanding exports, evident in their revenue growth outside India, to diversify revenue streams and mitigate risks associated with regional economic changes. Their strategy involves leveraging existing customer relationships to expand product sales across different global regions.

### **Continue to reduce operating costs and improve operational efficiencies**

HFL's operational improvements include automation with 10 robots boosting efficiency, especially at their 14,000-tonne forging press line. They've integrated 5 MW solar power plants, reducing costs and reliance on traditional energy sources. Efficiency gains from lead-time reductions, sourcing discounts, improved inventory management, and waste control practices are evident. Looking ahead, they plan to enhance engineering capabilities, streamline production, and increase automation to counter rising labor costs.

## Key Risks & Concerns

- The business heavily relies on its top 10 customers for revenue, ranging from 68.52% to 79.22% of total earnings in recent fiscal years. Losing any of these customers could seriously impact the company's financial health and operations.
- HFL relies on a limited number of suppliers for its primary raw material, steel, without having specific supply agreements in place. Any disruptions in the supply chain for steel could significantly harm HFL, impacting its financial stability, operational results, and cash flows.
- HFL faces significant capital expenditure and working capital needs, potentially necessitating additional financing in the future. Failure to secure this necessary capital and financing could constrain its operations.
- Revenue concentration of about 45% is from sale of crankshafts and reduction in demand for crankshafts would have a material adverse effect.

## Offer Details

HFL's proposed OFS size is INR 609 cr which would reduce promoter and promoter group shareholding from 88.2% (pre-issue) to 76.2% (post-issue). The size of fresh issue is INR 609 cr and this object of the issue are as follows:

- purchase of equipment, plant and machinery estimated to INR 187 cr;
- prepayment of all or a portion of certain outstanding borrowings availed by it estimated to INR 153 cr and
- general corporate purposes.

## Issue Structure and Offer Details

The proposed total issue size of HFL is INR 1,009 cr (INR 400 cr fresh issue and INR 609 cr fresh issue) and the price band for the issue is in the range of INR 808 – 850 and the bid lot is 17 shares and multiples thereof.

Issue Structure	
Investor Category	Allocation
QIB	Not more than 50% of the Offer
NIB	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer

*Number of shares based on a higher price band of INR 850*

*Source: Company Reports*

### Details of the selling shareholders

Promoter Selling shares	Amount offered	No of shares
<b>Paritosh Kumar Garg (HUF)</b>	<b>Not more than INR 418 Cr</b>	<b>49,22,445</b>
<b>India Business Excellence Fund – III</b>	<b>Not more than INR 190 Cr</b>	<b>22,37,475</b>

*The amount is based on a higher price band of INR 850*

*Source: Company Reports*

## HFL financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23	Fig in INR Cr (unless specified)	FY21	FY22	FY23
<b>Income Statement</b>				<b>Per share data &amp; Yields</b>			
<b>Revenue</b>	<b>585.0</b>	<b>860.0</b>	<b>1,196.5</b>	Adjusted EPS (INR)	9.2	15.1	22.2
<i>YoY Growth (%)</i>	<i>4.8</i>	<i>47.0</i>	<i>39.1</i>	Adjusted Cash EPS (INR)	13.0	19.1	27.9
Raw Material Cost	251.6	388.4	551.1	Adjusted BVPS (INR)	68.5	83.6	104.9
<i>RM Cost to Sales (%)</i>	<i>43.0</i>	<i>45.2</i>	<i>46.1</i>	Adjusted CFO per share (INR)	5.3	8.5	22.2
Employee Cost	49.0	68.7	87.8	CFO Yield (%)	0.6	1.0	2.6
<i>Employee Cost to Sales (%)</i>	<i>8.4</i>	<i>8.0</i>	<i>7.3</i>	Adjusted FCF per share (INR)	(3.9)	(13.0)	2.7
Other Expenses	125.6	172.1	216.8	FCF Yield (%)	(0.5)	(1.5)	0.3
<i>Other Exp to Sales (%)</i>	<i>21.5</i>	<i>20.0</i>	<i>18.1</i>				
<b>EBITDA</b>	<b>158.7</b>	<b>230.9</b>	<b>340.9</b>	<b>Solvency Ratio (X)</b>			
<i>Margin (%)</i>	<i>27.1</i>	<i>26.8</i>	<i>28.5</i>	Total Debt to Equity	0.2	0.3	0.2
<i>YoY Growth (%)</i>	<i>11.4</i>	<i>45.4</i>	<i>47.7</i>	Net Debt to Equity	0.2	0.3	0.2
Depreciation & Amortization	35.8	37.7	54.2	Net Debt to EBITDA	0.8	1.0	0.6
<b>EBIT</b>	<b>123.0</b>	<b>193.1</b>	<b>286.8</b>				
<i>Margin (%)</i>	<i>21.0</i>	<i>22.5</i>	<i>24.0</i>	<b>Return Ratios (%)</b>			
<i>YoY Growth (%)</i>	<i>7.8</i>	<i>57.0</i>	<i>48.5</i>	Return on Equity	13.4	18.1	21.1
Other Income	5.9	6.1	5.8	Return on Capital Employed	11.4	13.9	17.7
Finance Cost	11.8	7.2	12.5	Return on Invested Capital	16.0	18.8	23.8
Interest Coverage (X)	10.4	27.0	23.0				
Exceptional Item	0.0	0.0	0.0	<b>Working Capital Ratios</b>			
<b>PBT</b>	<b>117.1</b>	<b>192.0</b>	<b>280.0</b>	Payable Days (Nos)	24	19	15
<i>Margin (%)</i>	<i>20.0</i>	<i>22.3</i>	<i>23.4</i>	Inventory Days (Nos)	76	78	52
<i>YoY Growth (%)</i>	<i>22.2</i>	<i>64.1</i>	<i>45.8</i>	Receivable Days (Nos)	103	94	94
Tax Expense	30.6	49.8	71.3	Net Working Capital Days (Nos)	155	154	131
<i>Tax Rate (%)</i>	<i>26.2</i>	<i>25.9</i>	<i>25.5</i>	Net Working Capital to Sales (%)	42.6	42.1	35.9
<b>PAT</b>	<b>86.4</b>	<b>142.3</b>	<b>208.7</b>				
<i>Margin (%)</i>	<i>14.8</i>	<i>16.5</i>	<i>17.4</i>	<b>Valuation (X)</b>			
<i>YoY Growth (%)</i>	<i>8.1</i>	<i>64.6</i>	<i>46.7</i>	P/E	92.6	56.3	38.4
Min Int/Sh of Assoc	0.0	0.0	0.0	P/BV	12.4	10.2	8.1
<b>Net Profit</b>	<b>86.4</b>	<b>142.3</b>	<b>208.7</b>	EV/EBITDA	51.2	35.7	24.1
<i>Margin (%)</i>	<i>14.8</i>	<i>16.5</i>	<i>17.4</i>	EV/Sales	13.9	9.6	6.9
<i>YoY Growth (%)</i>	<i>8.1</i>	<i>64.6</i>	<i>46.7</i>				
<b>Balance Sheet</b>				<b>Cash Flow Statement</b>			
Share Capital	8.9	17.9	17.9	PBT	117.1	192.0	280.0
Total Reserves	636.2	769.7	970.4	Adjustments	35.0	50.6	68.9
<b>Shareholders Fund</b>	<b>645.2</b>	<b>787.6</b>	<b>988.3</b>	Change in Working Capital	(71.6)	(112.6)	(68.1)
Long Term Borrowings	30.0	74.0	58.2	Less: Tax Paid	(30.6)	(49.8)	(71.3)
Deferred Tax Assets / Liabilities	20.2	22.9	23.0	<b>Cash Flow from Operations</b>	<b>49.9</b>	<b>80.3</b>	<b>209.5</b>
Other Long Term Liabilities	0.0	0.0	0.0	Net Capital Expenditure	(91.7)	(190.8)	(174.5)
Long Term Trade Payables	0.0	0.0	0.0	Change in Investments	33.0	25.2	2.0
Long Term Provisions	3.3	0.0	0.0	<b>Cash Flow from Investing</b>	<b>(58.7)</b>	<b>(165.7)</b>	<b>(172.5)</b>
<b>Total Liabilities</b>	<b>698.6</b>	<b>884.6</b>	<b>1,069.5</b>	Change in Borrowings	21.5	89.8	(24.5)
Net Block	414.7	456.2	678.4	Less: Finance Cost	(11.8)	(7.2)	(12.5)
Capital Work in Progress	39.4	212.3	74.8	Proceeds from Equity	0.0	(0.2)	0.0
Intangible assets under developmer	1.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Non Current Investments	0.0	0.4	0.0	Dividend Paid	0.0	0.0	0.0
Long Term Loans & Advances	83.6	34.9	60.0	<b>Cash flow from Financing</b>	<b>9.7</b>	<b>82.5</b>	<b>(37.0)</b>
Other Non Current Assets	0.4	0.5	23.0	<b>Net Cash Flow</b>	<b>0.8</b>	<b>(2.9)</b>	<b>(0.0)</b>
Net Current Assets	159.7	180.3	233.3	Forex Effect	0.0	0.0	0.0
<b>Total Assets</b>	<b>698.6</b>	<b>884.6</b>	<b>1,069.5</b>	Opening Balance of Cash	2.0	2.9	0.0
				<b>Closing Balance of Cash</b>	<b>2.9</b>	<b>0.0</b>	<b>0.0</b>

Source: Ventura Research



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