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| Issue Details | |
|-----------------|--------------------|
| Price Band (Rs) | Rs.314 - 330 |
| Face Value (Rs) | 10 |
| Issue Size (Rs) | 755Cr |
| Issue Type | Book Building |
| Minimum lot | 45 Shares |
| Issue Opens | September 14, 2022 |
| Issue Closes | September 16, 2022 |
| Listing on | BSE, NSE |

| Indicative Timeline | On or before |
|------------------------------------|--------------|
| Finalization of Basis of Allotment | September 21 |
| Unblocking of Funds | September 22 |
| Credit of shares to Demat Account | September 23 |
| Listing on exchange | September 26 |

| Other Detail | |
|----------------------------|---|
| Book Running Lead Managers | Axis capital limited, Equirus capital private Limited, JM financial limited |
| Registrar | Link Intime India Private Limited |

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Harsha Engineers International Ltd

Company Background

Incorporated in 2010, Harsha Engineers International Limited ("HEIL") is the largest manufacturer of precision bearing cages, in terms of revenue in organised sector in India. The company is a part of the Harsha Group. The company supplies its products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. They offer a wide range of bearing cages starting from 20 mm to 2,000 mm in diameter and their bearing cages find its application in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors etc. HEIL has also been providing comprehensive complete turnkey solutions to all Solar Photovoltaic requirements. HEIL has 4 strategically located manufacturing facilities for their engineering business with one of their principal manufacturing facilities at Changodar and one at Moraiya, near Ahmedabad in Gujarat in India, and one manufacturing unit each at Changshu, China and Ghimbav Brasov in Romania.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.455Cr and Offer for sale of Equity Shares aggregating upto Rs.300Cr.

Issue Objectives

| Particulars | Amt (In Cr) |
|---|-------------|
| Pre-payment or scheduled repayment of a portion of the existing borrowing availed by the company; | 270 |
| Funding capital expenditure requirements towards purchase of machinery; | 78 |
| Infrastructure repairs and renovation of the existing production facilities including office premises in India; | 7 |
| General corporate purposes | |

IPO share allotment pattern

| Category | Allocation | Number Of Shares At Rs.314 | Number Of Shares At Rs.330 | Issue Size (Rs.cr) |
|-------------------|------------|----------------------------|----------------------------|--------------------|
| QIB | 50% | 1,19,82,484 | 1,14,01,515 | 376 |
| Non-Institutional | 15% | 35,94,745 | 34,20,455 | 113 |
| Retail | 35% | 83,87,739 | 79,81,061 | 263 |
| Employee* | | 88,339 | 83,612 | 3 |
| Total | | 2,40,53,307 | 2,28,86,642 | 755 |

* Employee Discount: Rs.31/- per share
Source: Company RHP, ACMIIL Research

Outlook and Valuations

HEIL is a leading engineering company that offers diversified suite of products across geographies and end-user industries. The company controls 50-60% of the domestic organised Indian bearing cages market and 6.5% of the global organised market. Global Bearings Market is expected to grow at a CAGR of 6.4%, set to reach USD 171.7 billion by

FY29 from Rs.USD 104.6 billion in FY21. Moreover, The Indian bearing cages market is expected to grow at a CAGR of 8.3%, set to reach USD 10.3 billion by FY29 from Rs.USD 5.5 billion in FY21. With its superior product mix, long standing relationships with leading clientele, and adding capacities, we believe HEIL is well placed to capitalize on domestic and global opportunities. At the upper price band of Rs.330/-, stock is priced at 32.7x its FY22 EPS of Rs.10.08/-(based on fully diluted post issue equity). **We recommend subscribing to the issue from a long term perspective.**

Competitive Strengths

Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end-user industries

Within their diversified product portfolio, HEIL manufactures bearing cages (including cylindrical roller cages, spherical roller cages, deep groove cages, angular contact cages, thrust roller cages and taper roller cages), complex and specialised precision stamped components, welded assemblies and brass castings and bushings. Since their incorporation, they have manufactured more than 7,500 types of products in the automotive and industrial segments. They manufacture bearing cages in brass, steel and polyamide which represents 6.5% of the global organised outsourced bearing (brass, steel & polyamide) cages market in CY 2021.

They have recently expanded their product portfolio to introduce sand-casting; value-added stamping components, bronze bushings etc. to cater to more end user industries such as wind, mining and shipping sectors. Their products find application across automotive, aviation and aerospace, construction, mining, agriculture, electricals and electronics, renewables sectors.



Long standing relationships with leading clientele

HEIL has established strong relationship with their customers who are leading global bearing manufacturers in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors. The bearing cages market globally is concentrated among a few global bearing manufacturers with Top-6 global bearing manufacturers contributing to 54% of the market share in Fiscal 2022.

As of March 31, 2022, HEIL supply to each of the Top-6 global bearing manufacturers. Their Top-10 customers contributed to 44.70%, 48.24%, and 47.79% of their total revenue from operations for Fiscal 2022, Fiscal 2021 and Fiscal 2020, respectively. The average age of their relationship with their Top-5 customer groups spans more than a decade. Their key customer groups are also key global bearing manufacturers who have been their customers for over a decade. Their customer-centric approach and continuous effort on transparent dealings has allowed them to enter into long term framework agreements with leading key global bearing manufacturers. They have partnered with certain of their key customer groups in the product development process, enabling their products to meet the exact specifications provided by the customers.

Strategically located domestic and international production facilities and warehouses

Company's presence in the present locations helps them overcome significant entry barriers in comparison with their competitors, allowing them to penetrate these markets more efficiently and becoming a local supplier to leading key global bearing players. Their presence in these strategic locations help them penetrate global markets more efficiently and, in a cost effective, manner. It also gives them the ability to cater to the needs of their customers from multiple locations, at times designing products at one location while manufacturing them at another. Their dual-shore capabilities, which is their ability to carry out design, engineering and manufacturing of products at different locations allow them to service customer requirements from alternate locations, giving the customer the benefit of regular supply and cost-competitive manufacturing operations.

Additionally, they have entered arrangements to stock inventory in warehouses over 20 locations across the world. Their multinational presence has also allowed them to diversify their revenue geographically and enhanced their reputation which results in higher orders from India.

Expertise in Tooling, design development and automation

HEIL has full-service capabilities across the product cycle including product design and development, material sourcing, designing and manufacture of complex tooling components, testing and measurement infrastructure, all under one roof for meeting the requirement of their global customers. They employ machining as well as stamping processes in their manufacturing process.

HEIL currently manufactures a wide range of precision automotive and industrial components with size upto 2,000 mm in diameter. They have comprehensive tooling, testing and measurement infrastructure and independent tool designing capabilities at both their units in India as well as their production unit in Romania that has allowed them to successfully diversify their products portfolio and improve their current processes in different type of bearing cages.

Bearing cage is an important component within a bearing and requires the highest lead time for development and technical and tooling expertise, for its manufacture when compared to other components of a bearing. Given the critical function of a bearing cage, and the resultant quality requirements, global bearing companies have steadily increased outsourcing manufacture of bearing cages and the business from these bearing companies has gotten concentrated to a few bearing cage manufacturers including HEIL

Consistent track record of growth and financial performance

Company's focus on operational and functional excellence has contributed to their track record of healthy financial performance. Their strong financial performance reflects the efficacy of the manufacturing and supply-chain management protocols that they have implemented while their steady operating cash flows enable them to meet the present and future needs of their customers and develop new value-added products.

Financial Snapshot

| Particulars (Rs.Mn) | FY20 | FY21 | FY22 |
|-------------------------|-------|-------|--------|
| Equity share capital | 500 | 500 | 772 |
| Net worth | 3,720 | 4,272 | 5,219 |
| Revenue from Operations | 8,859 | 8,738 | 13,214 |
| EBITDA | 861 | 1,219 | 1,690 |
| EBITDA Margin | 10% | 14% | 13% |
| Net Profit | 220 | 455 | 918 |
| Net Profit Margin | 2.48% | 5.21% | 6.95% |
| Diluted EPS (Rs) | 3.52 | 5.88 | 11.90 |
| ROE(%) | 5.80 | 10.49 | 17.42 |
| ROCE(%) | 6.49% | 11.32 | 14.84 |
| Debt to Equity Ratio | 1.11 | 0.82 | 0.73 |

Source: Company RHP, ACMIIL Research,

Comparison with Listed Peers FY22

| Company | Total Revenue (Rs.Mn) | EPS | NAV | P/E | ROE(%) |
|--|-----------------------|-------|-----|-------|--------|
| Harsha Engineers International Limited | 13,390 | 11.90 | 68 | 32.7^ | 17.42 |
| Timken India Limited | 22,175 | 43.49 | 220 | 69.30 | 19.74 |
| SKF India Limited | 37,002 | 79.90 | 381 | 59.21 | 20.95 |
| Rolex Rings Limited | 10,281 | 48.83 | 200 | 36.04 | 24.21 |
| Sundaram Fasteners | 49,414 | 21.74 | 125 | 39.38 | 17.42 |

All financial information is sourced from financial results or annual report of the company for the year ended March 31, 2022. P/E Ratio has been computed based on the closing market price as on August 23, 2022. ^P/E Ratio has been computed based on the Issue price and on fully diluted post issue equity.

Risks and concerns

- Customers Customer Concentration: Top 5 customers Contributes 70% of FY22 revenues.
- Failure to comply with quality standards and technical specification.

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|--|---------------------------|
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| RBI Monetary Policy | Master Trades Medium Risk |
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