

Business Overview

Company Profile:

- Harsha Engineers International Limited (“HEIL”) was incorporated on December 11, 2010. The part of Harsha Group, HEIL is a leading engineering company that offers diversified suite of products across geographies and end-user industries. It manufactures brass, steel and polyamide cages and stamped components with production facilities located in Asia (India & China) and in Europe (Romania).
- HEIL’s market share is estimated to be around ~50-60% in the Indian bearing cages market making it the largest manufacturer of precision bearing cages in organized sector in India in terms of revenues and amongst the leading manufacturers of precision bearing cages in the world. HEIL accounted for a share of 6.5% in the global organized bearing brass, steel and polyamide cages market in CY2021.
- 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.

Types of Business:

- **Engineering Business:** With this, HEIL manufactures bearing cages (in brass, steel and polyamide materials), complex and specialised precision stamped components, welded assemblies and brass castings and cages & bronze bushings.
- **Solar EPC Business:** With this, HEIL provides complete comprehensive turnkey solutions to all solar photovoltaic requirements.

Issue Details

Fresh Issue of [●] Equity Shares aggregating up to ₹ 4,550 million and Offer for Sale of [●] Equity Shares aggregating up to ₹3,000 million

Issue size: ₹ 755 Cr

No. of shares: 228,86,642 - 240,53,307

Face value: ₹ 10/-

Employee Reservation: Shares aggregating up to ₹ 2.50 Cr.

Price band: ₹ 314 - 330

Employee Discount: ₹ 31/- per share

Bid Lot: 45 shares and in multiples thereon

Post Issue Implied Market Cap:

₹ 2,881 - 3,004 Cr

BRLMs: Axis Capital Limited, Equirus Capital Private Limited, JM Financial Limited

Registrar: Link Intime India Private Limited

Indicative Timetable

Activity	On or about
Anchor Investor Issue Opens	13-09-2022
Issue Opens	14-09-2022
Issue Closes	16-09-2022
Finalization of Basis of Allotment	21-09-2022
Refunds/ Unblocking ASBA Fund	22-09-2022
Credit of equity shares to DP A/c	23-09-2022
Trading commences	26-09-2022

Listing: BSE & NSE

Issue Break Up

Retail	QIB	NII
35%	50%	15%

Shareholding *

	Pre Issue	Post Issue
Promoter & Promoter Group	99.70%	74.61%
Public	0.30%	25.39%
Total	100.00%	100.00%

*Calculated using data in RHP on pages - 1, 79

Competitive Strengths

Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end user industries: The company has a diversified product portfolio in terms of the materials used as well as the dimensions and end-use of the finished products. The company has approximately 50-60% of the market share in the organised segment of the Indian bearing cages market (Source: CARE Advisory Report). Since incorporation, they have manufactured more than 7,500 types of products in the automotive and industrial segments. The company's products find application across automotive, aviation and aerospace, construction, mining, agriculture, electricals and electronics, renewables sectors. 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. The company supplies products to customers in over 25 countries covering five continents i.e. North America, Europe, Asia, South America and Africa. Given the wide presence, their revenue stream is diversified both geographically as well as across customers.

Long standing relationships with leading clientele: The company 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 six global bearing manufacturers contributing to 54% of the market share in Fiscal 2022 (Source: CARE Advisory Report). As of March 31, 2022, the company supplies to each of the top six global bearing manufacturers. The average age of their relationship with the top five customer groups spans more than a decade. The long term relationship with customers allows the company to understand and cater to their diverse requirements, including the development of new products.

Strategically located domestic and international production facilities and warehouses: The company has four strategically located manufacturing facilities spread across three countries in India, China, and Romania. Their presence in these locations helps them overcome significant entry barriers in comparison with the competitors, allowing them to penetrate these markets more efficiently and becoming a local supplier to leading key global bearing players. Additionally, to help meet just in time requirements of the customers, the company has entered arrangements to stock inventory in warehouses over 20 locations across the world. Having proximity to the key customer groups gives them a strategic advantage in ensuring greater cost effectiveness, quicker delivery and faster turn-around times, allowing to maximize customer satisfaction in a timely manner. The company's multinational presence has also allowed them to diversify revenue geographically and enhanced reputation which results in higher orders from India.

Expertise in Tooling, design development and automation: The company 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 the global customers. Their machines are equipped for both individual and diversified processes, and their fungibility enables the company to employ them in the most optimum manner to suit the customer's preferences. They have comprehensive tooling, testing and measurement infrastructure and independent tool designing capabilities at both units in India as well as the production unit in Romania that has allowed them to successfully diversify the products portfolio and improve the current processes in different type of bearing cages.

Consistent track record of growth and financial performance: For Fiscals 2022, 2021 and 2020, the company generated total revenue from operations from engineering business of ₹12,385.35 million, ₹ 8,195.62 million, and ₹ 8,216.59 million respectively, as per their Restated Consolidated Financial Statements. Moreover, they have low leverage, with a net debt-to-equity ratio of 0.68 as of March 31, 2022. For Fiscal 2022, 2021 and 2020, they achieved an EBITDA margin of 14.12%, 14.30%, and 11.29% , respectively, as per the Restated Consolidated Financial Statements. The company believes that their strong financial performance reflects the efficacy of the manufacturing and supply-chain management protocols that they have implemented while the steady operating cash flows enable them to meet the present and future needs of their customers and develop new value-added products.

Strong, experienced and dedicated senior management team and qualified workforce: The company's senior management team comprising of their Promoters are qualified engineers and have extensive experience and knowhow in engineering sector, including, business development, operations, administration, marketing and human resource management. Founder Promoters and Directors Harish Rangwala and Rajendra Shah have been in this business since 1986. The management team also includes a strong and experienced team of cross functional professionals across senior and mid-level management. In addition, the company has a dedicated team of engineers along with other skilled and technically qualified workforce.

For further details, refer to 'Our Strengths' page 140 of RHP

Business Strategies

Enhance market leadership in bearing cages and expanding the customer base:

With India in particular, and Asia Pacific markets in general, poised to do well in terms of bearing demand growth in the automotive and industrial machinery markets (Source: CARE Advisory Report). The company believes that their manufacturing presence in India and China will help them in capitalising on the expected growth in bearing cage demand from India and Asia Pacific markets, and present them with significant opportunities for growth of existing market share in these jurisdictions. Historically, the company has established profitable relationships with their key global customer groups, and are a focused player in this segment offering comprehensive bearing cage outsourcing solutions on a long-term basis.

Retain and strengthen the technological leadership through continued focus on development and automation:

They are a technology driven company focused on using appropriate cost effective technologies for different volumes and varieties of products, to become single point solution provider to the customers for their different needs of type of cages and different volumes of cages. The company plans to continue expanding their development, engineering, tool design and manufacturing, process improvements, lean manufacturing techniques, and automate them to optimize manpower to ensure zero defect products.

Growing the stamping and specialised component segment:

The company plans on capitalizing on the existing niche and low volume high value products in the stamping and special component segment and gradually scale up its business over next three to five years. They plan on achieving this growth in two phases i.e. (i) manufacturing specialized parts/components and supplying to auto component assembly manufacturers and thereafter; (ii) change in supply process by manufacturing assemblies as composite component and supply directly to OEMs. The company has set up a dedicated stamping unit at their production unit at Moraiya and have installed certain machinery with tools for complex stamping at their primary manufacturing units. Further, they are in the process of developing complex compressor parts and certain other components which are used in the compressor industry and focus on manufacturing of bearing seals and stamping.

Focus on increasing operational efficiencies to improve returns:

Offering quality products at attractive prices is a key aspect of maintaining and expanding the company's relationships with their customers. To that end, they have adopted several initiatives designed to improve the cost efficiency. The company has adopted Total Productive Maintenance ("TPM") initiative across the plants in India to improve operational efficiency and the reliability of the manufacturing processes by lowering break downs and rejections. This has helped them to ensure high quality, low costs and on-time delivery for the customers.

Increased focus on developing products suited to capture market opportunity in the growing electric vehicle segment:

As the automobile segment is shifting focus to electric vehicles the need for more silent and lighter bearings, and it's components, will be felt, and the demand is likely to increasingly shift towards precise dimension and dirt free bearing, steel and polyamide cages as a probable solution at a premium value (Source: CARE Advisory Report). The company believes that their inhouse tool and design facilities coupled with their latest machinery, specialised cleaning equipment and software would enable them to manufacture precision stamping components and steel cages suited for the electric vehicle segment including as import substitutes. In addition, the company has also invested in enhancing the tool room and design capacity for faster cage mold development to focus more on developing polyamide cages in different categories to meet the increased demand from the electric vehicles space in the coming years.

Focus on growth by opportunistic inorganic acquisitions and partnerships with customers:

The company has historically expanded their business through a combination of organic growth, acquisitions and strategic alliances with the customers and with other component manufacturers. Further, in order to reduce costs and synergize all the operations in India, they have integrated all the India businesses (engineering and solar EPC business) and operations into one entity. The company also seeks strategic partnerships with the key customer groups for innovation and development of new products and supply them to new geographies.

For further details, refer to 'Our Strategies' page 144 onwards of RHP

Profile of Directors

Rajendra Shah is the Chairman and Whole-time Director of the Company. He was awarded the AMA Atlas Dycechem “Outstanding Entrepreneur of the Year Award 2001” by the Ahmedabad Management Association. Currently, he is looking after overall management of the Company, particularly all financial matters. He is associated with Blind People’s Association, Ahmedabad as President. He was Chairman of CII Gujarat for 2019-20. He has over 35 years of experience in the precision engineering business for bearing cages and stamped components.

Harish Rangwala is the Managing Director of the Company. He served at Tata Chemicals and thereafter joined the Company. Currently, he is looking after overall management of the Company along with Renewable energy division. He has over 35 years of experience in the precision engineering business for bearing cages and stamped components.

Vishal Rangwala is the Chief Executive Officer and Whole-time Director of the Company. In 2005, he was appointed as a senior staff analyst at United Service - a division of United Airlines. Thereafter he joined the Company in September 2007, as a manager for marketing. He is responsible for the overall strategic directions for the Harsha group and is currently leading marketing and corporate functions. He has over 13 years of experience in the precision engineering business for bearing cages and stamped components.

Pilak Shah is the Chief Operating Officer and Whole-time Director of the Company. Thereafter he joined the Company in 2006, as a manager for resource management and was thereafter, appointed as director on the Board of Company on February 5, 2006. He is responsible for the overall strategic directions of the Harsha Group. He has over 13 years of experience in the precision engineering business for bearing cages and stamped components.

Hetal Ukani is a Whole-time Director of the Company. She has been associated with the Company since 2015 She has extensive knowledge and technical skills in Designing Software’s, Design Failure Mode and Effect Analysis (DFMEA), Automotive Engineering, Lean Manufacturing, Geometric Dimensioning and Tolerancing (GD&T), Sheet Metal, Total Productive Maintenance (TPM) etc. She is responsible for Health and Safety of all employees and others who may be affected by the Company’s operations. She also plays a vital role in managing TPM function of the Company.

Neharika Vohra is an Independent Director of the Company. She is currently Vice Chancellor of the Delhi Skills and Entrepreneurship University. She has been a Professor at IIM Ahmedabad since the last two decades. She has also taught at Xavier Institute of Management, Bhubaneswar for four years and for short periods at University of Manitoba. She has over 22 years of experience in teaching and research in the field of organizational behavior.

Ambar Patel is an Independent Director of the Company. He has served as the managing director of Shilp Gravures Limited since October 29, 1993. He is the Director on Board of The Kalupur Commercial Co-Operative Bank Ltd. and Chairman of MSME committee of the said bank. At present he is an executive committee member as well as Chairman of Labour & Industrial safety committee at Gujarat Chamber of commerce & Industry. He is the President of Santej Industrial Area Association. He is the Advisory Committee Member for Health & Care Foundation and Aastha Charitable Trust.

Kunal Shah is an Independent Director of the Company. He is associated with AIA Engineering Limited since December 2002. He was the CFO from 2014 to 2017 and currently Executive Director of the, Corporate Affairs. He has established his own consulting Firm “Theoden Ventures LLP” and is the co-founder of Aurus. He has an overall general management and financial experience.

Bhushan Punani is an Independent Director of the Company. He is associated with Blind People’s Association, Ahmedabad as the General Secretary and with ICEVI as the Vice President. He was awarded the Distinguished Alumnus Award from the Indian Institute of Management, Ahmedabad in 2011. He has been a member of the Central Advisory Board on Disability, National Advisory Committee on Accessible Election and Committee on Drafting of National Law on Disability.

Ramakrishnan Kasinathan is an Independent Director of the Company. Previously, he has worked at ACT India, Johnson & Johnson Limited, Best & Crompton Engineering Limited, SKF India Limited and Hindustan Zinc Limited. He is currently associated with Nexdigm Private Limited as a consultant.

Given above is the abstract of data on directors seen on page 176 of the RHP

Object of the Offer

Offer for Sale: Since the Offer is an offer for sale, the Company will not receive any proceeds from the Offer.

Fresh Issue: The Net Proceeds are proposed to be utilized in accordance with the details provided in the following table:

Particulars	Amount (Rs. In Million)*
Gross Proceeds of the Fresh Issue	Up to 4,550.00
(Less) Offer related expenses in relation to the Fresh Issue*	[●]
Net Proceeds from the Fresh Issue after deducting the Offer related expenses to be borne by the Company (“ Net Proceeds ”)	[●]

* To be finalized upon determination of Offer Price.

Comparison with peers

The following peer group has been determined on the basis of companies listed on Indian stock exchanges, whose business profile is comparable to their business:

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
Harsha Engineers International Limited	10.00	16.06	17.42%	68.34	[●]
Listed Peers					
Timken India Limited	10.00	43.49	19.74%	220.28	69.30
SKF India Limited	10.00	79.90	20.95%	381.43	59.21
Rolex Rings Limited	10.00	50.23	24.21%	200.05	36.04
Sundaram Fasteners Limited	1.00	21.74	17.42%	124.75	39.38

Above data is obtained from page 104 of RHP

Notes:

(a) Financial information for Company is derived from the Restated Consolidated Financial Statements for the year ended March 31, 2022.

(b) P/E Ratio has been computed based on the closing market price of equity shares on NSE on August 23, 2022, divided by the Diluted EPS.

(c) Return on Net Worth (%) = Profit for the year attributable to owners of the company divided by Equity attributable to the owners of the Company for the year.

Financials (Restated Consolidated):

(Rs. in Million unless stated otherwise)

Particulars	For the year ended 31-Mar-22	For the year ended 31-Mar-21	For the year ended 31-Mar-20
Equity Share Capital	772.48	500	500
Other Equity	4,446.12	3,771.77	3,219.80
Net Worth	5,279.01	4,332.18	3,780.21
Total Borrowings	3,848.62	3,566.74	4,191.30
Revenue from Operations	13,214.81	8,737.54	8,858.53
EBITDA	1,865.77	1,249.62	1,000.55
EBITDA Margin	14.12%	14.30%	11.29%
Profit/(Loss) Before Tax	1,266.19	607.22	315.85
Profit/(Loss) After Tax	919.44	454.39	219.09
PAT Margin	6.87%	5.18%	2.44%
Basic EPS	16.06	9.09	6.26

Above data obtained from pages 21, 62, 103 & 285 of RHP

Notes:

(a) Total borrowings means total of Non-current borrowings and lease liabilities as well as current borrowing and lease liabilities, and excludes transaction cost.

(b) EBITDA = PBT + depreciation and amortisation + finance cost + loss/ (profit) on sale of fixed assets

(c) EBITDA margin = EBITDA / revenue from operations

(d) PAT margin = PAT / total income

Key Risk Factors

- The Offer Price, market capitalization to revenue from operations multiple and price to earnings ratio based on the Offer Price of the Company may not be indicative of the market price of the Company on listing or thereafter.
- The company depends on a limited number of customer groups for a significant portion of their revenue from engineering business. The loss of any major customer groups due to any adverse development or significant reduction in business from the major customer groups may adversely affect their business, financial condition, results of operations, cash flow and future prospects.
- The company is dependent on network of agents, for fulfillment of needs of the customers. Their inability to maintain the relationships with agents or deficiency in the service provided by such agents may adversely affect their business, results of operations, cashflow and profitability.
- The company is subject to various laws, regulations, approvals and licenses required in the ordinary course of business, including environmental, health and safety laws and other regulations. Any failure to obtain, renew or comply with necessary regulatory approvals and licenses may adversely affect their operations and have an impact on the financial condition.
- The company has recently completed a corporate reorganisation, pursuant to which they may face administrative and operational difficulties.
- The company is exposed to foreign currency exchange rate fluctuations, which may adversely affect their results of operations and cause their quarterly results to fluctuate significantly.
- The company's financing agreements impose certain restrictions on the operations, and their failure to comply with operational and financial covenants may adversely affect the reputation, business and financial condition.
- The company's inability to successfully diversify the product offerings of their engineering business may adversely affect the growth and negatively impact profitability.
- The company depends on third parties for the supply of raw material and delivery of products. A disruption in the supply of raw materials or failure of the suppliers to meet their obligations could impact the company's production and increase costs.
- The Company and certain of their Subsidiaries have unsecured loans that may be recalled by the lenders at any time.
- The company has certain contingent liabilities and capital commitments, which, if they materialize, may adversely affect the financial condition.
- There are outstanding litigations involving the Company and the Directors. Any adverse outcome in any of these proceedings may adversely affect their reputation, results of operations and financial condition.
- The company's operational flexibility may be limited in certain respects on account of their obligations under certain of their major customer agreements for the engineering business.
- Geographical concentration of the production units may restrict the company's operations and adversely affect their business and financial condition.
- Information relating to the company's installed capacities and the historical capacity utilization of their manufacturing units included in this Red Herring Prospectus is based on various assumptions and estimates and future production and capacity utilization may vary.
- The company's solar EPC operations expose them to certain risks including construction cost price fluctuation, equipment defects, etc.
- The company depends on suppliers from China for certain key components used in their solar power projects. A disruption in the supply of these key components or failure of suppliers to meet their obligations could impact the company's ability to set up solar power projects.
- Conflicts of interest may arise out of common business objects for solar EPC business between the Company and certain of the Group Companies which are in the same line of activity or business as that of the Company.
- The Promoters, Directors and Key Management Personnel of the company may have interests other than reimbursement of expenses incurred and normal remuneration or benefits.

Please read carefully the Risk Factors given in detail in section II (page 27 onwards) of RHP

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Registration details:

JM Financial Services Ltd.

Stock Broker – Registration No. - INZ000195834

Corporate Identity Number: U67120MH1998PLC115415

Registered office Address: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin- 400025.

Tel: (91 22) 6630 3030 |Fax: (91 22) 6630 3223

Corporate office Address: 5th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai, Maharashtra Pin- 400025.

Tel: (91 22) 6704 3000/3024 3000 |Fax: (91 22) 6704 3139.

