

HARSHA ENGINEERS INTERNATIONAL LIMITED

LKP

Comprehensive solution provider offering a diversified suite of precision engineering products

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 supplies 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.

Strategically located domestic and international production facilities

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 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 are their ability to carry out design, engineering and manufacturing of products at different locations, allows them to service customer requirements from alternate locations, giving the customer the benefit of regular supply and cost-competitive manufacturing operations.

Outlook and Valuation

At the higher price band of ₹330, HEIL is valued at 27.7x FY22 earnings of ₹11.9 which in our view is reasonable compared to its peers. The company with its strong market share in precision bearing cages and being one of the leading players globally in organized bearing cages, having strong clientele with long standing relationship provides healthy return ratios and visibility going ahead. **We recommend investors to SUBSCRIBE to the IPO of HEIL.**

Issue Details

Fresh Issue of Equity shares aggregating upto ₹455 Cr and Offer for sale of Equity Shares aggregating upto ₹300 Cr

Issue Highlights

Issue Size:	₹ 755 Cr
No. of Shares:	24,053,265- 22,886,595
Face Value:	₹ 10/-
Price Band:	₹ 314 - 330
Bid Lot:	45 Shares and in multiple thereof
Employee Reservation:	₹ 2.50 Cr
Employee Discount:	₹ 31/- per share
Post Issue Implied MCap:	₹ 2,881 – 3,005 Cr
Issue Opens On:	14th September, 2022
Issue Closes On:	16th September, 2022
BRLMs:	Axis Capital, Equirus Capital, JM Financial
Registrar:	Link Intime India Pvt. Ltd.
Listing :	BSE & NSE

Indicative Timetable

Activity	On or about
Finalisation 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

Issue break-up

	No. of Shares		₹ In Cr	% of Issue
	@Lower	@upper		
QIB	11,982,420	11,401,470	376.25	50%
NIB	3,594,780	3,420,450	112.88	15%
RET	8,387,730	7,981,065	263.38	35%
EMP	88,335	83,610	2.50	-
Total	24,053,265	22,886,595	755.00	100%

Shareholding (No. of Shares)

Pre issue	Post issue~	Post issue^
77,248,410	91,747,545	91,044,105

~@Lower price Band ^@ Upper Price Band

Shareholding (%)

	Pre issue	Post issue
Promoters	57.43%	43.46%
Promoters Group	42.27%	31.15%
Public	0.30%	25.39%
Total	100.00%	100.00%

Key Managerial Personnel

Rajendra Shah is the **Promoter, Chairman and Whole-time Director** of the company. Currently, he looks after overall management of the company, particularly all financial matters. He has over 35 years of experience in the precision engineering business for bearing cages and stamped components.

Harish Rangwala is the **Promoter, Managing Director** of the company. Currently, he looks 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 **Promoter, Chief Executive Officer and Whole-time Director** of the company. 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 **Promoter, Chief Operating Officer and Whole-time Director** of the company. 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.

Maulik Jasani is the **Vice President - Finance and Group CFO** of the company with effect from December 25, 2021. He has over 17 years of experience in accounting and finance. Prior to joining the company, he has been associated with Cadila Healthcare Ltd, Delhi Assam Roadways Corp Ltd and Mukesh M. Shah & Co, Ahmedabad.

Kiran Mohanty is associated with the company from July 1, 2015 (in his capacity as **Whole-time Secretary** of Harsha Engineers Ltd, which has currently merged into the company) was appointed as the Company Secretary and the Chief Compliance Officer of the company with effect from August 12, 2021. He has over 13 years of experience as a company secretary. Prior to joining the company, he was previously associated with Claris Injectables Ltd, John Energy Ltd and Siemens Healthcare Diagnostic Ltd.

Business Overview

HEIL is the largest manufacturer of precision bearing cages, in terms of revenue, in organised sector in India, and amongst the leading manufacturers of precision bearing cages in the world. HEIL offers diversified suite of precision engineering products across geographies and end-user industries.

Company's business comprises:

- Engineering business, under which 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; and
- Solar EPC business, under which HEIL provides complete comprehensive turnkey solutions to all solar photovoltaic requirements.

HEIL has approximately 50-60% of the market share in the organised segment of the Indian bearing cages market and 6.5% of the market share in the global organised bearing cages market for brass, steel and polyamide cages in CY 2021. 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 is a technology driven company with a strong focus on quality, design and tool development, which has allowed them to develop products suited to their customers' requirements. They have the expertise to design and develop advance tooling in-house which enables them to manufacture precision bearing cages and complex and specialised precision stamped components. Bearing cages are critical parts of a bearings and it requires high precision technology to manufacture them. HEIL, which housed a team of 253 qualified engineers (including solar EPC business) as of March 31, 2022, along with their decades of experience in bearing cages engineering, enable them to develop specialized products and solutions. Their ability to develop products suited to their customers' requirements has fostered strong and long-term customer relationship which in turn has helped them gain higher margins for their products and better navigate competition.

Further, they have been successful in diversifying their product portfolio and improve their current processes in different types of bearing cages mainly due to their design, development and technological capabilities. As of March 31, 2022, they have been able to manufacture more than 7,205 bearing cages and more than 295 other products for customers in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors, allowing them to meet changing customer requirements. In addition, over the past 3 years their product development and innovation center has developed more than 1,200 products in different bearing types.

They have been able to leverage their tooling capabilities and the expertise developed in the stamping employed for manufacture of steel cages to diversify and grow their stamping components business. It also provides comprehensive metal stamping solutions ranging from simple to complex designs and geometries to their clients in automotive; bearing and sealing; and electrical and appliance industry. Their capability extends to manufacturing high quality precision components as well as semi assembled modular units. 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. While the automotive segment is shifting towards the electric vehicles, the impact on them will be limited as they are not manufacturing needle bearings cages which are engine components. Needle cages bearing used in engines and small cage bearing used in two and three wheelers are likely to be the most impacted type of bearings due to increasing penetration of electric vehicles. Further, the electrification of vehicles will increase the precision requirements sought by customers which will help companies like HEIL to further improve their market share in the sector.

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 for manufacturing of bearing cages and the business from these bearing companies has gotten concentrated to a few bearing cage manufacturers including them. HEIL has established strong customer relationship with leading global bearing manufacturers in the automotive, railways, renewable energy, and other industrial sectors. Additionally, they have been involved by their key customer groups in their product development process from the design stage and accordingly, they have been able to ensure repeat orders from their customers. Each of their Top-5 customer groups (excluding customers' contributing to revenue from scrap sales) have been their customers for over a decade. Their long-term relationship with customers is indicative of their quality consciousness, cost efficiency and design, tooling and technological capabilities.

HEIL is also an EPC service provider in the solar photovoltaic industry and also provides operations and maintenance services in the solar sector. They have over 10 years of operating history in the solar EPC business. They have an in-house design, engineering, procurement, project management and O&M team which has a combined experience of installing at least 500 MW and more than 60 MW commissioning experience in roof top segment as of March 31, 2022. The revenue from solar EPC business aggregated to ₹82.95 crore, ₹54.19 crore, and ₹64.19 crore for Fiscals 2022, 2021 and 2020, respectively, constituting 6.28%, 6.20%, and 7.25% respectively, of the total revenue from operations, as per the Restated Consolidated Financial Statements.

HEIL has 3 wholly owned subsidiaries, one in China - Harsha Precision Bearing Components (China) Co. Ltd, one in the United States of America - HASPL Americas Corporation and one in the Netherlands - Harsha Engineers B.V., and a step-down subsidiary in Romania - Harsha Engineers Europe SRL. The company also has a 50% interest, as a partner, in Clenmax Harsha Solar LLP and 26% equity interest in Sunstream Green Energy One Pvt Ltd (formerly known as Eirene Naval Systems Pvt Ltd).

Manufacturing Facilities

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.



Source: Company

Exhibit 1: Revenue break-up segment wise

(Rs mn)	FY20	FY21	FY22
Engineering & Others	8216.6	8195.6	12385.4
Solar-EPC and O&M	641.9	541.9	829.5
Total Revenue from Operations	8858.5	8737.5	13214.8

Source: Company, LKP Research

Exhibit 2: Region wise revenue break-up for Engineering

(Rs mn)	FY20	FY21	FY22
Europe	3411.6	3425.8	5006.3
India	2585.2	2350.7	4019
China	1148.5	1318.6	1726.4
America	641.4	622	823.4
Other	430	478.5	810.2
Total	8216.6	8195.6	12385.4

Source: Company, LKP Research

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.

Established strong customer relationships with leading bearing manufacturers...

Top 6 players Market Share in FY22 – Global Bearing Industry

Supplies to each of the top 6 global bearing manufactures

Empaneled marquee customers by leveraging its core competencies

- Automated production facilities
- Best-in-class quality & consistency
- R&D Focus
- Tooling Expertise
- Cost-competitiveness

...through HEIL's ability to supply across geographies

Revenues outside India (FY22)

63.31%

4 strategically located manufacturing facilities enabling supply of products to over 25 countries across 5 continents

Revenues from top 5 customer groups (FY22)

70.55%

> 10 years Average age of relationship with top 5 customer groups

- Involvement in product development
- Wide product basket

Source: Company

Company Products

Different designs of bearing cages with diverse applications



Taper Roller



Deep Groove



Angular Contact Ball



Thrust Roller



Spherical Roller



Cylindrical Roller



Sand Casting

- ✓ Railways
- ✓ Industrial machines
- ✓ Pumps
- ✓ Compressors
- ✓ OEMs
- ✓ Engine applications

- ✓ Crushers
- ✓ Steel mills
- ✓ Thermal turbines
- ✓ Windmills
- ✓ Agricultural machines
- ✓ Automotive parts

- ✓ Chemical machinery
- ✓ Utilities
- ✓ White appliances
- ✓ Chemical machinery
- ✓ General industries
- ✓ Blowout preventers

- ✓ Extruders
- ✓ Gearboxes
- ✓ Offshore drilling
- ✓ Oil rigs
- ✓ Traction motors for railways

Source: Company

Company Background

Harsha Engineers International Limited (HEIL) the largest manufacturer of precision bearing cages, in terms of revenue, in organized sector in India, and amongst the leading manufacturers of precision bearing cages in the world. (Source: CARE Advisory Report). Company offers a diversified suite of precision engineering products across geographies and end-user industries. Its business comprises : (i) engineering business, under which company manufacture bearing cages (in brass, steel and polyamide materials), complex and specialized precision stamped components, welded assemblies and brass castings and cages & bronze bushings; and (ii) solar EPC business, under which company provide complete comprehensive turnkey solutions to all solar photovoltaic requirements.

Company has approximately 50% market share in the organized segment of the Indian bearing cages market and 5.2% of the market share in the global organized bearing cages market for brass, steel and polyamide cages in CY20 (Source: CARE Advisory Report). Company offer a wide range of bearing cages starting from 20 mm to 2,000 mm in diameter and bearing cages find its application in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors etc.

Offer Summary

HEIL is planning to raise an issue size of upto 24,053,265 shares (Fresh issue of upto 14,499,135 equity shares and Offer for Sale of upto 9,554,130 Equity shares). The issue size will be ₹7.5 bn with FV of ₹10. The price band is of ₹314-330 and the lot size is 45 and in multiples thereof. Post issue implied market cap will range between ₹28.81-30.05 bn. The issue opens on 14th Sep and closes on 16th Sep 2022.

Consistent track record of growth and healthy financials

The company's Sales/EBITDA/PAT has grown at a CAGR of 22.1%/36.6%/104.9%, while its EBITDA margins were reported at 14.12% in FY22 vs 11.29% in FY20. Segmentally HEIL Engineering business has grown at a CAGR of 22.8% over FY20-22 while its Solar EPC and O&M business has grown at 13.7% CAGR over FY20-22. The company has consistently delivered profits at the bottom line, with net margins at 6.87% in FY22 while return ratios remain healthy. Given strong clientele and long standing relationship over 10 years over top 5 customers provide comfort.

Enhance market leadership in bearing cages and expanding the customer base

The expected growth in usage of bearings in several applications such as mining, automotive, heavy machinery, infrastructure development, power generation and construction is expected to drive the demand for bearings market and it is expected to grow at a CAGR of 6% to 8% over the period 2021 to 2029 and is estimated to be valued at USD 171.7 billion in the year 2029. Keeping pace with the market trends, HEIL has started to expand their business into large diameter brass and steel bearing cages. Currently, for such large size brass and steel bearing cages in-house production by bearing companies is quite high considering the complexity of the production process.

Growing the stamping and specialised component segment

HEIL 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 3 to 5 years. They plan on achieving this growth in 2 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.

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 its 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.

Company's 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, they have also invested in enhancing their tool room and design capacity for faster cage mould 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.

Exhibit 3: Peer Comparison

FY 22 (Consolidated)	FV (₹)	Revenues (₹ Crs)	EBITDA Margins (%)	PAT Margins (%)	EPS (Rs)	ROAE (%)	CMP (₹)	P/E(x)
Harsha Engineering	10	1,321.48	14.12	6.87	11.9	19.13	330	27.7
Timken India	10	2,203.24	23.83	14.75	43.49	21.8	3,363	77.3
SKF India	10	3,665.89	16.09	10.67	79.9	22.9	4,981	62.3
Rolex Rings	10	1,016.71	23.64	12.83	50.23	29.26	1,967	39.2
Sundaram Fasteners	1	4,902.06	17.09	9.35	21.74	18.49	878	40.4

Source: Company, LKP Research., CMP as on 09 Sep 2022

Exhibit 4: Profit & Loss Summary

(Rs mn)	FY20	FY21	FY22
Total income	8,858.53	8,737.54	13,214.81
% Growth		-1.4	51.2
EBITDA	1,000.6	1,249.6	1,865.8
% Margins	11.29	14.3	14.12
PBT	315.9	607.2	1,266.2
PAT	219.1	454.4	919.4
% Margins	2.44	5.18	6.87
EPS (₹)	3.52	5.88	11.9

Source: Company, LKP Research

Exhibit 5: Balance Sheet

(Rs mn)	FY20	FY21	FY22
Equity & Liabilities			
Total equity	3,719.8	4,271.8	5,218.6
Non current liabilities	1,277.9	1,227.0	1,605.6
Total current liabilities	4,734.7	4,311.9	4,758.3
Total liabilities	9,732.4	9,810.7	11,582.5
Assets			
Total Non current assets	3,555.3	3,640.0	3,782.2
Total current assets	6,177.1	6,170.7	7,800.3
Total assets	9,732.4	9,810.7	11,582.5

Source: Company, LKP Research

Exhibit 6: Cashflow Statement

(Rs mn)	FY20	FY21	FY22
Cash flow from operations	1,129.07	1,211.57	364.74
Cash flow from investment	-645.74	-199.6	-518.3
Cash flow from financing	-382.5	-924.28	37.26
Cash at beginning of the period	7.69	242.78	330.47
Cash at end of the period	242.78	330.47	214.17

Source: Company, LKP Research

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