

Harsha Engineers

Engineering | India

IPO | 13 September 2022

Leading Bearing Cages Player

About the Company

Harsha Engineers International (Harsha) is the largest Indian manufacturer of precision bearing cages. Harsha is one of the top global manufacturers of brass, steel, polyamide bearing cages with a market share of ~5-6% in the organized market. Harsha manufactures bearing cages in the range of 20 mm to 2,000 mm in diameter. It also manufactures specialised precision stamped components, welded assemblies and brass castings and bushings. Since inception it manufactured more than 7,500 types of products in the automotive and industrial segments. It has ~50-60% of the market share in the organised segment of the Indian bearing cages market. It works closely with customers in the product development process. It recently expanded 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 is coming out with an IPO of Rs7.6bn, (OFS of Rs4.6bn and fresh issue of Rs3bn). The company will utilise the funds for repayments of loan and Capex. The market cap at higher band is seen at Rs30bn.

Robust In-house Development Capabilities

Harsha manufactures complex products with a strong focus on R&D and expertise in design & development of advance tooling in-house. It primarily operates in two business segments: Engineering which manufactures bearing cages, complex & specialised precision stamped components, welded assemblies and brass castings and cages & bronze bushings. The Solar EPC business provides comprehensive turnkey solutions to all solar photovoltaic requirements in addition to operations and maintenance services in the solar sector.

Strong Clientele

As of Sep'21, Harsha Engineers International has manufactured more than 7,200 bearing cages and more than 295 other products for customers across various sectors like automotive, railways, aviation and aerospace, construction, mining, agriculture, electrical and electronics and renewables. Moreover, in the past 3 years, the company's product development and innovation centre has developed more than 1,200 products in different bearing types. The principal production facilities are at Changodar and Moraiya, in Gujrat.

Global Reach

The company also has a production facility through subsidiary in China and a step-down subsidiary in Romania. The company has a strong customer base and supplies to over 25 countries spanning North America, Europe, Asia, South America and Africa. It has three wholly owned subsidiaries namely, Harsha Precision Bearing Components (China) Co. Ltd, HASPL Americas Corporation and Harsha Engineers B.V, in China, U.S and Netherlands respectively.

Financials in Brief

During FY20-22, its revenue and PAT clocked CAGR of 22% and 105% respectively, while EBITDA margin expanded from 9.7% in FY20 to 12.8% in FY22. -The company reported revenue of Rs13.2bn in FY22, up 51% YoY, while EBITDA increased to Rs1.7bn (margin of 12.8%) in FY22 from Rs1.2bn (margin of 13.9%) in FY21. PAT for FY22 stood at Rs919mn, as against Rs454mn in FY21. ROE has expanded to 17.6% in FY22 against 10.6% in FY21 and 5.9% in FY20. The company's average net debt-to-equity ratio stood at ~1.2x.

Our View

On FY22 annualized financials, the IPO is valued at 19.8x EV/EBITDA, 2.5x EV/sales and 33x P/E. Harsha offers an expansive suite of precision engineering products and has marked its presence across several industries, operating in various geographies. Additionally, the strategic locations of its production facilities and warehouses, and an experienced management along with a qualified workforce, augurs well for the company. **Leading position in Bearing cages, strong financial, expertise in tooling, design development, automation, solid clientele base and diversified products across geographies are key positives, while valuation captures most of the positives leaving limited upside.**

IPO Details

Price Band (Rs)	Rs314-Rs330
Face Value (Rs)	10
Issue Open/Closing Date	14-Sep-22/16-Sep-22
Fresh Issues (mn)	13.8
OFS (mn)	9.1
Total Issue (mn)	22.9
Minimum Bid Qty. (Nos)	45
Issue Size (Rs bn)	7.55
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)	30.0

*At a higher band

Object of the Issue

- ▶ Repayment of borrowings.
- ▶ Funding capex and purchase of machinery.
- ▶ Infrastructure repairs and renovation of existing facilities.

Key Risk

- ▶ Dependent on a limited number of customer groups for a significant portion of revenue.
- ▶ Inability to maintain the relationship with the agents or deficiency in the service provided by them.
- ▶ Subject to various laws, regulations, approvals and licenses
- ▶ Inability to successfully diversify product offerings.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	99.7	75.0
Others	0.3	25.0

Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	8,859	8,738	13,215
EBITDA	860	1,218	1,690
EBITDA Margin (%)	9.7	13.9	12.8
PAT	219	454	919
PAT Margin (%)	2.5	5.2	7.0
EPS (Rs)	2.4	5.0	10.1
P/E (x)	137	66	33
EV/EBITDA (x)	39.2	27.2	19.8
EV/Sales (x)	3.8	3.8	2.5
Net Worth	3,720	4,272	5,219
RoE (%)	5.9	10.6	17.6
Gross Debt	4,191	3,567	3,849
Net Block	2,620	2,678	2,829
Net Asset Turnover (x)	3.4	3.3	4.7

Source: RHP

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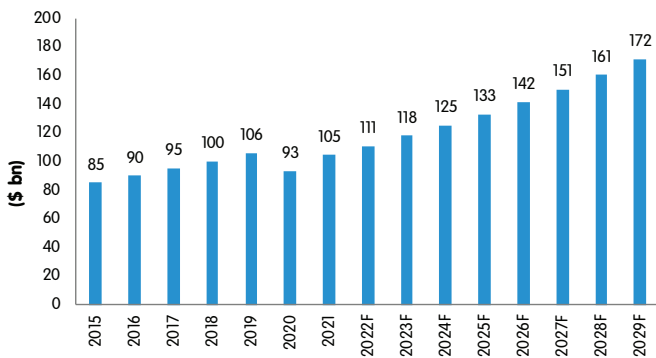
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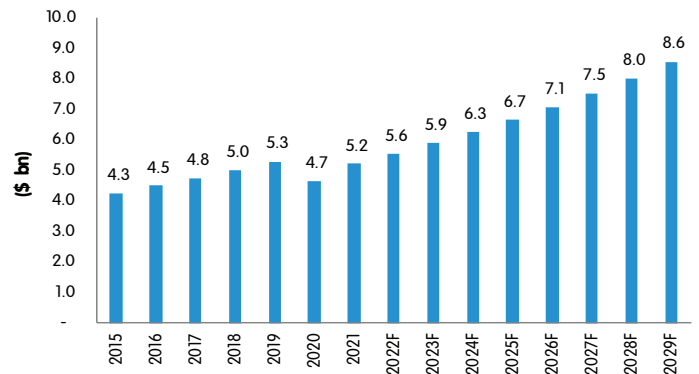
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Exhibit 1: Global Bearing Market



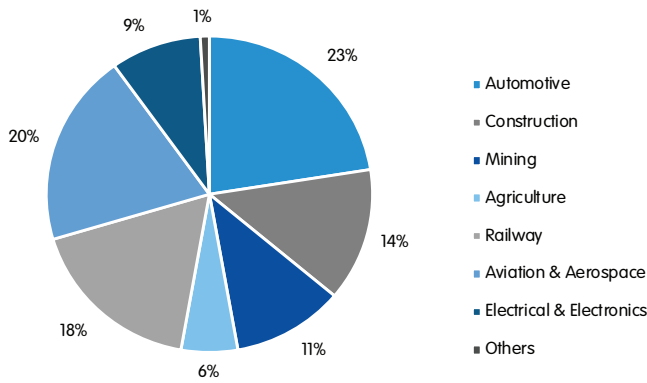
Source: CareEdge Research, Research N Reports

Exhibit 2: Global Bearing Cages Market



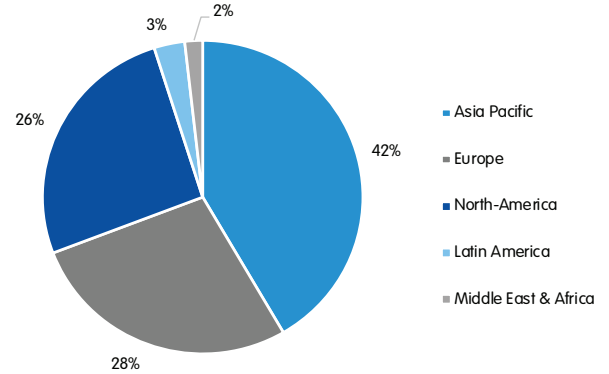
Source: Bearings Market – Research N Reports

Exhibit 3: Application of Bearing Market



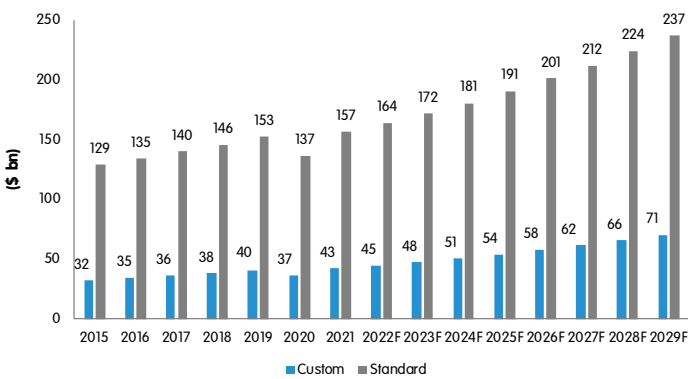
Source: RHP

Exhibit 4: Region Wise Usage Bearings Market



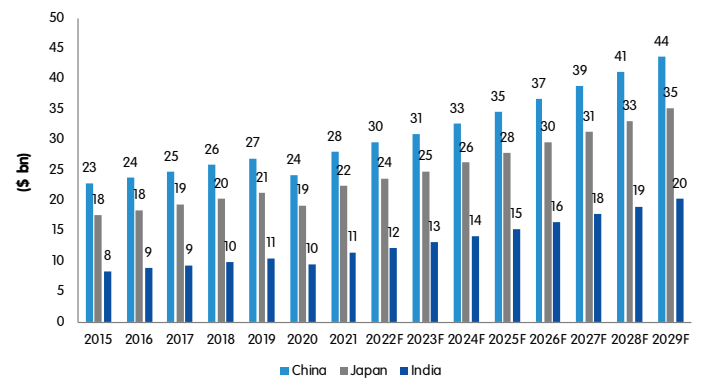
Source: RHP

Exhibit 5: Global Standard & Custom Market Value



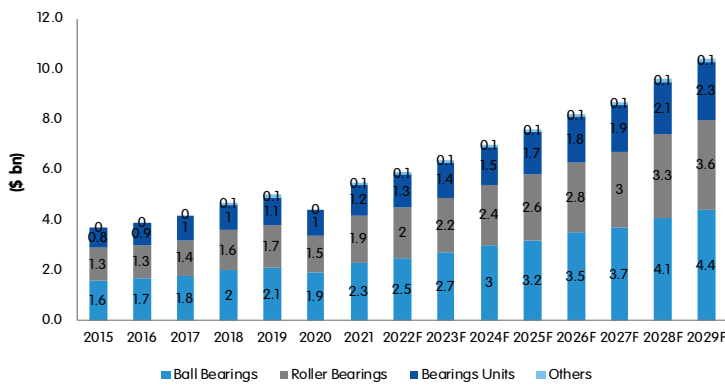
Source: Stampings Market – Research N Reports

Exhibit 6: Asia Pacific Stamping Market



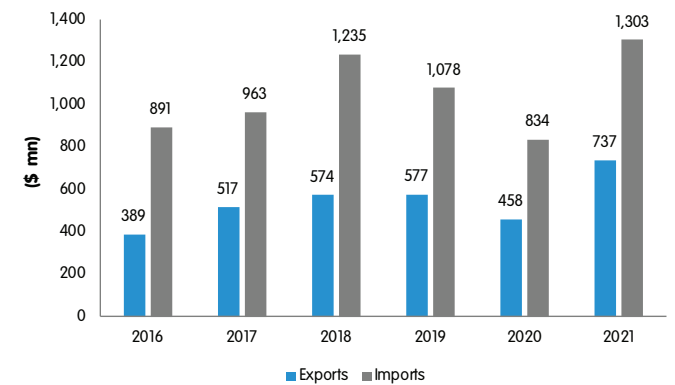
Source: Stampings Market – Research N Reports

Exhibit 7: Domestic Bearings Market



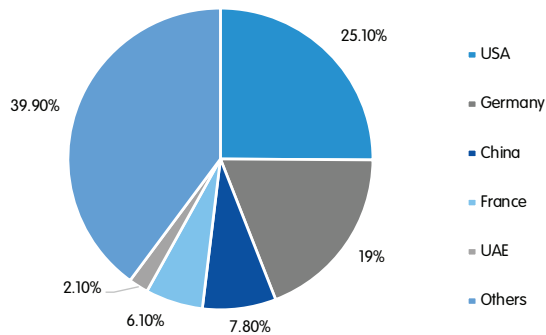
Source: Bearings Market – Research N Reports

Exhibit 8: Trend in India's Exports & Imports of Ball or Roller Bearings



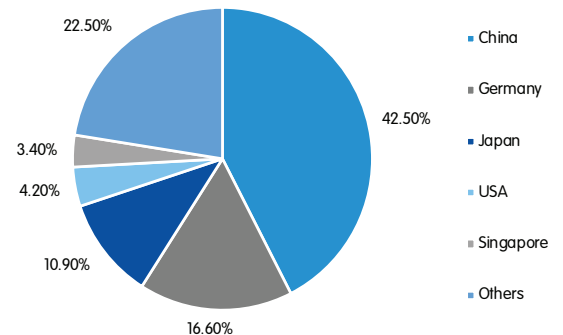
Source: United Nations Comtrade

Exhibit 9: Export Mix of Ball or Roller Bearings



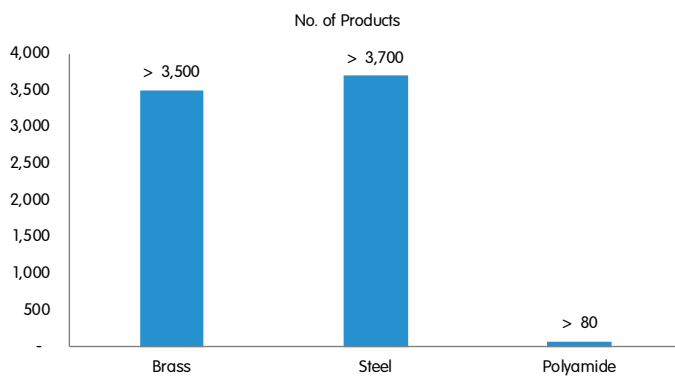
Source: United Nations Comtrade

Exhibit 10: Import Mix of Ball or Roller Bearings



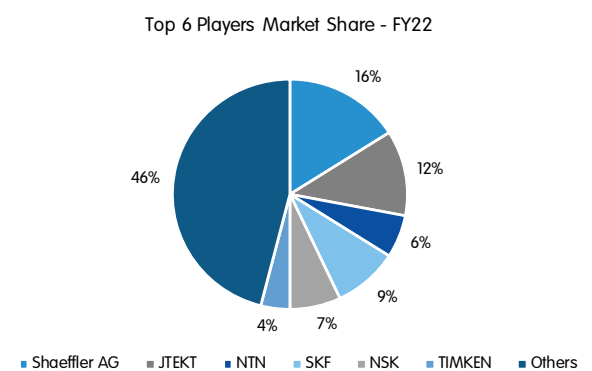
Source: United Nations Comtrade

Exhibit 11: Diversified Suite of Precision Engineering Products offered by Harsha



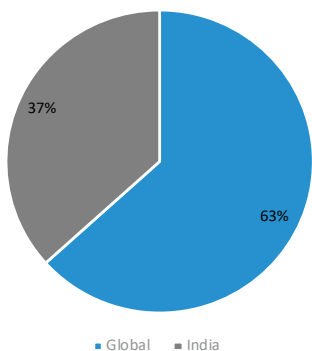
Source: RHP

Exhibit 12: Strong Relationships With Leading Bearing Manufacturers



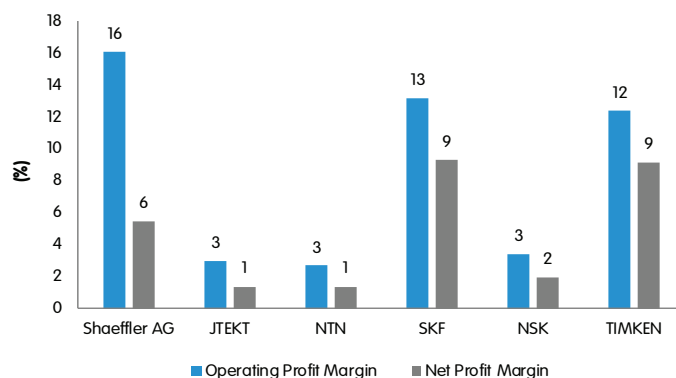
Source: RHP

Exhibit 13: Revenue Mix of Harsha (FY22)



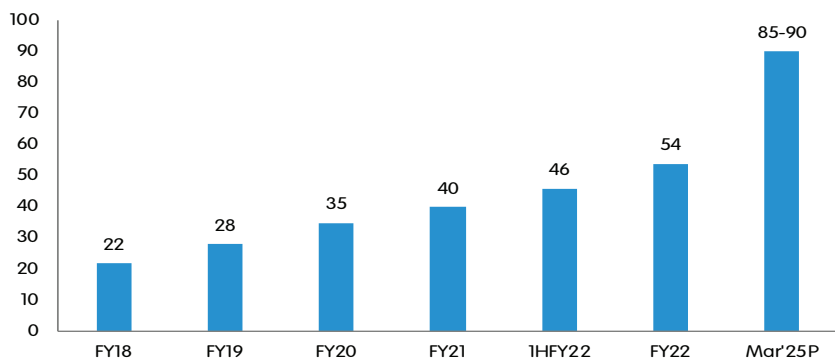
Source: RHP

Exhibit 14: Key Financial Metrics of Major Players



Source: RHP

Exhibit 15: Trend and Outlook for Installed Capacity of Ground-mounted Solar (GW)



Source: CEA, CareEdge Research

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