

Harsha Engineers International Ltd

**Sector tailwinds and diversified revenue sources to
propel growth**



Kyon ki bhaiya, sabse bada rupaiya.

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SUBSCRIBE at the Upper Price Band of INR 330

Sector tailwinds and diversified revenue sources to propel growth

Incorporated in 2010, Harsha Engineers International Ltd (HEIL) is one of the largest manufacturers of precision bearing cages - With a market share of 50-60% in India and 6-7% globally. The company supplies its products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. The business comprises two segments:

- Engineering business, under which the company manufactures bearing cages, complex and specialized precision stamped components, welded assemblies and brass castings and cages & bronze bushings.
- Solar EPC business, under which the company provide complete comprehensive turnkey solutions to all solar photovoltaic requirements and provides operations and maintenance services in the solar sector.

HEIL has 5 manufacturing facilities for engineering business with 2 manufacturing facilities at Changodar and one at Moraiya, Gujarat and one manufacturing unit each in Changshu, China and Ghimbav Brasov in Romania.

Over FY20-22, HEIL's revenue/ EBITDA/ PAT grew at a CAGR of 22.1%/ 46.9%/ 104.9% to INR 1,322 cr/ INR 169 cr/ INR 92 cr, respectively, while, EBITDA and PAT margins improved by 395bps (to 12.8%) and 448bps (to 7.0%), respectively. Return ratios too improved by 1173bps to 17.6% and 966bps to 15.6% respectively.

HEIL's proposed issue size is INR 755 cr out of which INR 455 cr is the fresh issue and INR 300 cr is OFS. The proposed fresh issue will be utilized for

- The repayment of INR 270 cr of debt in FY23
- The capex requirements of INR 78 cr towards the purchase of machinery (INR 50 cr in FY23 and INR 28 cr in FY24)
- Infrastructure repairs and renovation cost of INR 7 cr for the existing production facilities
- The general corporate purpose of INR 100 cr

In the OFS, the promoters are selling 8,990,908 shares, which will reduce the promoter stake from 99.7% (pre-issue) to 74.6% (post-issue).

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY21	873.8	117.8	45.5	13.5	5.2	5.0	46.9	10.6	11.6	66.2	7.0	28.0
FY22	1,321.5	169.0	91.9	12.8	7.0	10.1	57.3	17.6	15.6	32.7	5.8	19.8
FY23E	1,589.4	210.4	124.6	13.2	7.8	13.7	120.9	11.3	17.3	24.1	2.7	13.8
FY24E	1,859.3	256.4	170.3	13.8	9.2	18.7	139.6	13.4	18.9	17.7	2.4	11.2
FY25E	2,125.2	312.5	211.9	14.7	10.0	23.3	162.4	14.3	21.5	14.2	2.0	8.8

Industry	Capital Goods
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Issue Details

Listing	BSE & NSE
Open Date	14 th Sep 2022
Close Date	16 th Sep 2022
Price Band	INR 314-330
Face Value	INR 10
Market Lot	45 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	40%
Fresh Issue	60%
Issue Size (Amt)	INR 755 cr
Issue Size (Shares)	22,886,595
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	77,248,410
Post issue sh (nos)	91,044,105
Post issue M Cap	3,005

Shareholding (%)	Pre (%)	Post (%)
Promoter	99.7	74.6
Institution	0.3	16.5
Public	0.0	8.9
TOTAL	100	100

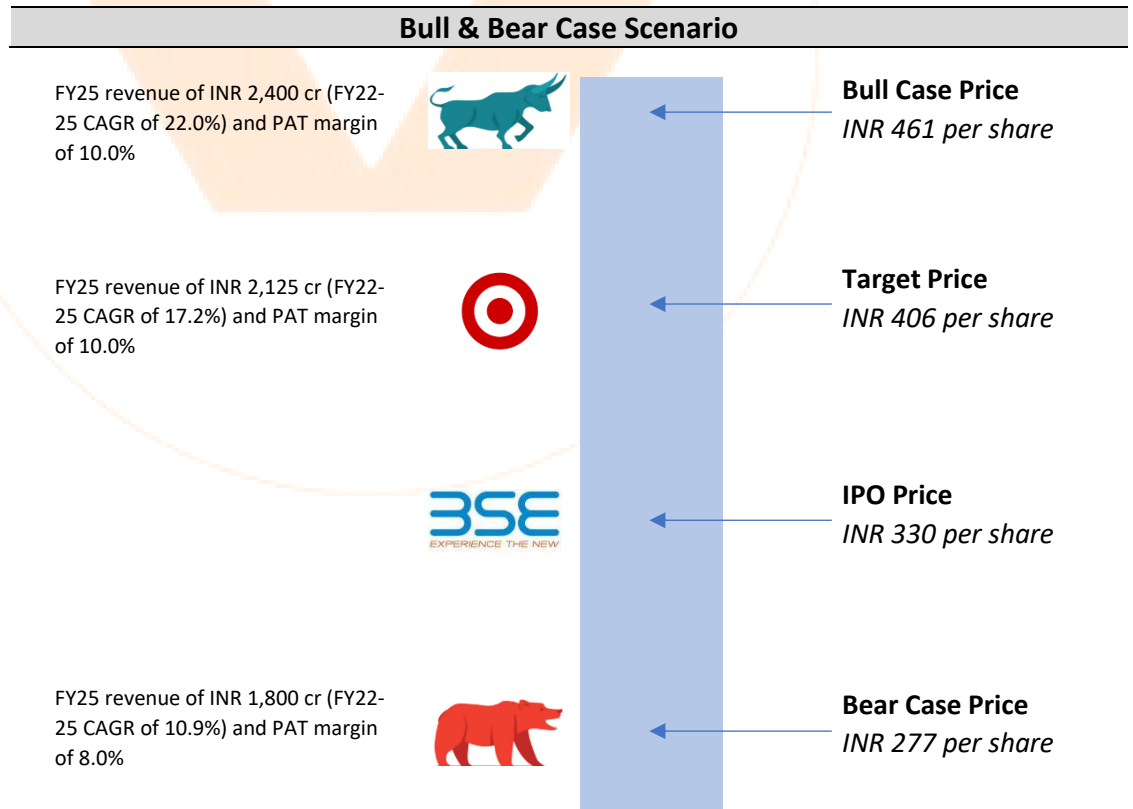
We are expecting HEIL's revenue/ EBITDA/ PAT to grow at a CAGR of 17.2%/ 22.7%/ 32.1% to INR 2,125 cr/ INR 313 cr/ INR 212 cr respectively over FY22-25E, while EBITDA and PAT margins are expected to improve by 191bps (to 14.7%) and 301bps (to 10.0%) respectively over the same period. Subsequently, RoIC is expected to improve by 586bps to 21.5% by FY25.

At the IPO price of INR 330 (upper price band), HEIL is valued at FY25 P/E of 14.2X. Considering the growth opportunities in the bearing sector due to sector tailwinds and strong fundamentals of HEIL, we recommend a SUBSCRIBE rating with a price target of INR 406, which represents an upside of 23% over the IPO price in 18 months.

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on HEIL FY25 revenues and PAT margins.

- **Bull Case:** We have assumed FY25 revenues of INR 2,400 cr (FY22-25 CAGR of 22.0%) and PAT margin of 10%, which will result in a Bull Case price target of INR 461 per share (an upside of 39.7% from IPO price).
- **Bear Case:** We have assumed FY25 revenues of INR 1,800 cr (FY22-25 CAGR of 10.9%) and PAT margin of 8.0%, which will result in a Bear Case price target of INR 277 per share (a downside of 16.1% from IPO price).

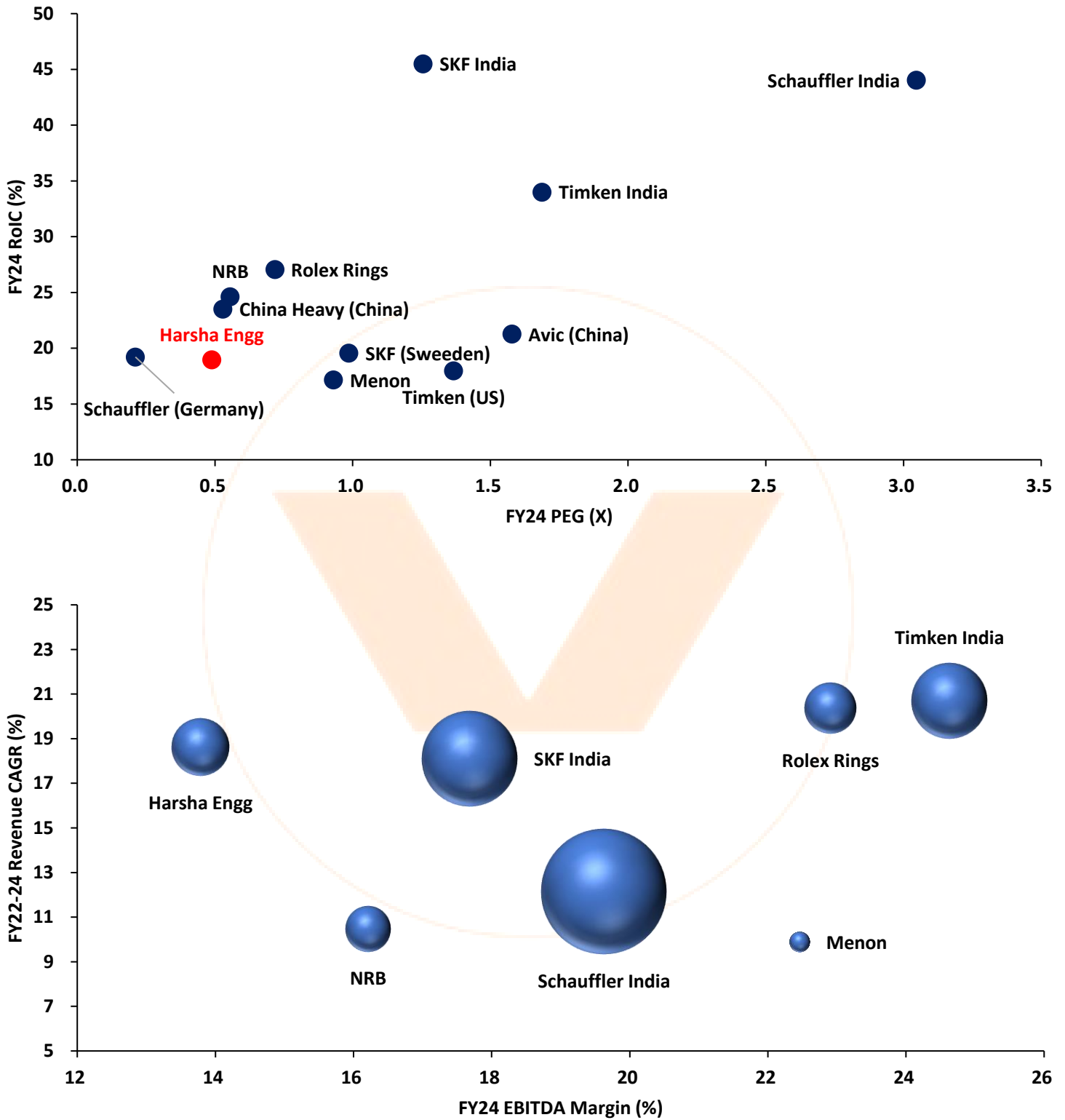


Valuation and Comparable Metric of Domestic Peers

Company Name	Mkt Cap	Price	PEG 2024	P/E Ratio			P/BV			EV/EBIDTA			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
				2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Domestic Peers (Fig in INR cr, unless specified)																											
Harsha Engineers International Ltd	3,005	330.0	0.5	32.7	24.1	17.6	5.8	2.7	2.4	19.7	13.8	11.2	17.6	11.3	13.4	15.6	17.3	18.9	1,321.5	1,589.4	1,859.3	12.8	13.2	13.8	7.0	7.8	9.2
SKF India Ltd	24,201	4,895.2	1.3	61.2	44.8	36.7	12.8	10.4	8.7	43.5	34.0	26.7	21.0	23.3	23.7	33.2	41.3	45.5	3,665.9	4,404.8	5,112.6	15.2	16.1	17.7	10.8	12.3	12.9
Schauffler India Ltd	56,262	3,599.5	3.0	66.1	55.5	49.0	13.2	11.5	9.9	42.6	35.8	32.6	20.0	20.7	20.2	39.3	43.7	44.0	6,958.3	8,069.3	8,748.8	18.9	19.4	19.6	12.2	12.6	13.1
Timken India Ltd	25,277	3,360.5	1.7	77.3	57.4	47.2	15.3	12.3	10.0	49.5	38.1	31.9	19.7	21.4	21.2	27.1	31.7	34.0	2,203.2	2,735.7	3,209.4	23.2	24.2	24.6	14.8	16.1	16.7
Rolex Rings Ltd	5,383	1,976.5	0.7	40.8	28.8	23.3	9.9	7.3	5.6	24.4	19.3	16.4	24.2	25.5	24.0	27.1	28.3	27.1	1,017.0	1,267.9	1,473.3	22.5	22.7	22.9	13.0	14.8	15.7
NRB Bearings Ltd	1,644	169.7	0.6	22.4	17.5	14.2	2.8	2.5	2.2	12.7	10.4	8.8	12.4	14.2	15.3	13.5	23.3	24.6	943.2	1,037.2	1,151.0	15.5	15.4	16.2	7.8	9.1	10.0
Menon Bearings Ltd	633	113.0	0.9	25.8	21.8	18.1	5.7	4.9	4.2	18.2	16.6	14.2	21.9	22.4	23.2	136.3	15.0	17.2	195.4	215.0	236.0	21.9	21.4	22.5	12.6	13.5	14.8
Global Peers (Fig in US\$ mn, unless specified)																											
Timken Co Ltd (USA)	5,027	68.5	1.4	12.0	10.9	10.4	2.1	1.8	1.6	7.6	7.0	6.6	17.3	16.8	15.8	17.8	18.3	18.0	4,430.6	4,610.5	4,703.2	18.6	18.9	19.1	9.5	10.0	10.3
SKF Ltd (Sweden)	7,044	15.4	1.0	10.5	9.6	8.8	1.5	1.4	1.3	6.4	5.7	5.0	14.8	14.8	14.6	16.8	18.2	19.6	8,775.9	8,931.0	9,120.1	15.3	15.9	16.6	7.7	8.2	8.8
Schaeffler AG (Germany)	3,534	5.3	0.2	6.1	4.9	4.2	1.0	0.9	0.8	2.9	2.8	2.5	16.0	17.9	18.4	17.0	18.3	19.2	15,133.7	16,152.8	16,626.5	12.8	13.5	14.3	3.8	4.5	5.0
Alfa Laval AB (Sweden)	11,725	28.3	1.6	22.3	19.0	17.9	3.6	3.3	3.0	14.0	12.0	11.3	16.2	17.3	16.8	17.8	20.4	21.3	4,671.8	5,191.7	5,378.3	19.1	19.8	19.8	11.3	11.9	12.1
Avic Heavy Machinery Co Ltd (China)	6,657	4.5	0.5	35.6	26.2	19.2	4.4	3.7	3.1	21.8	16.6	11.6	12.3	14.1	16.3	18.3	20.5	23.5	1,643.2	2,114.6	2,728.4	18.2	18.6	20.7	11.4	12.0	12.7
China Heavy Industries Ltd (China)	3,089	0.5	8.9	107.6	97.8	88.9	1.6	1.4	1.3	25.2	22.1	19.4	1.5	1.5	1.5	2.3	2.5	2.8	3,944.7	4,339.2	4,773.1	5.0	5.0	5.0	0.7	0.7	0.7

Source: Ventura Research & Bloomberg

One of the lowest valuations in the industry



Source: Company Report, Ventura Research, ACE Equity & Bloomberg

Financial Analysis & Projections

FY20-22 Performance: Better product mix and recovery in the global economy aided the financial performance

During FY20-22, the revenue grew at a CAGR of 22.1% to INR 1,322 cr, which was primarily driven by a 9.8% CAGR in sales volume to 678 mn pieces in FY22 and 12.3% CAGR growth in average realization due to better product mix and regular price hikes.

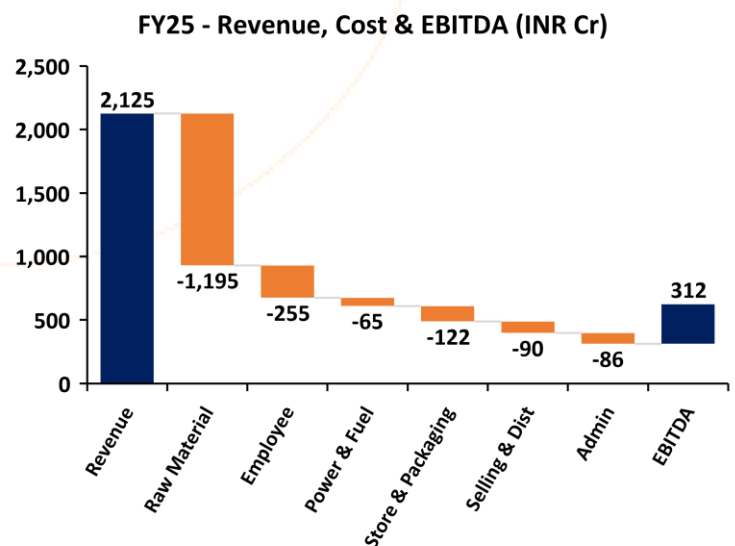
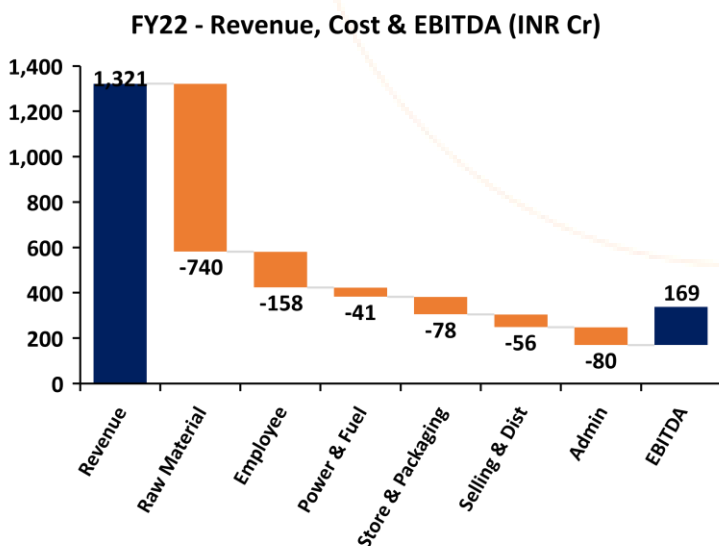
EBITDA and PAT grew at a CAGR of 46.9% to INR 169 cr and 104.9% to INR 92 cr respectively, while EBITDA and PAT margins improved by 395bps (to 12.8%) and 448bps (to 7.0%), respectively. Return ratios too improved by 1173bps to 17.6% and 966bps to 15.6% respectively.

FY22-25E Performance: Strong sector outlook is expected to drive financial performance

Over the period of FY22-25E, the revenues are expected to grow at a CAGR of 17.2% to INR 2,125 cr due to significant demand for bearings from heavy industries, locomotives, autos and windmill segments.

EBITDA and PAT are expected to grow at a CAGR of 22.7% to INR 313 cr and 32.1% to INR 212 cr respectively. EBITDA and PAT margins are also expected to improve by 191bps to 14.7% and 301bps to 10.0% respectively. Subsequently, RoIC is expected to improve by 586bps to 21.5% by FY25.

HEIL's revenue, cost and EBITDA analysis



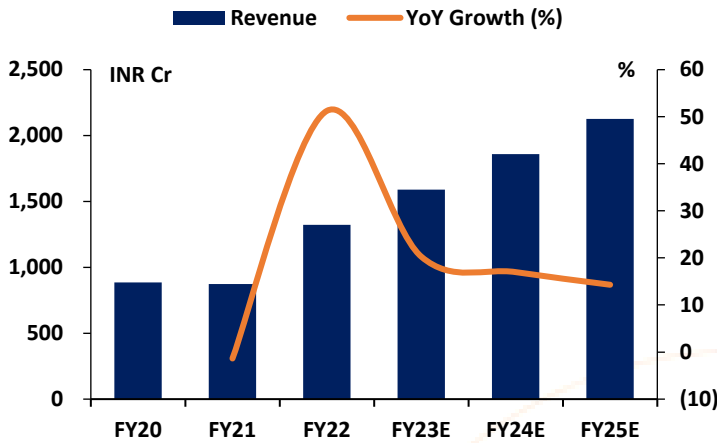
Source: Company Reports

HEIL' Financial Summary

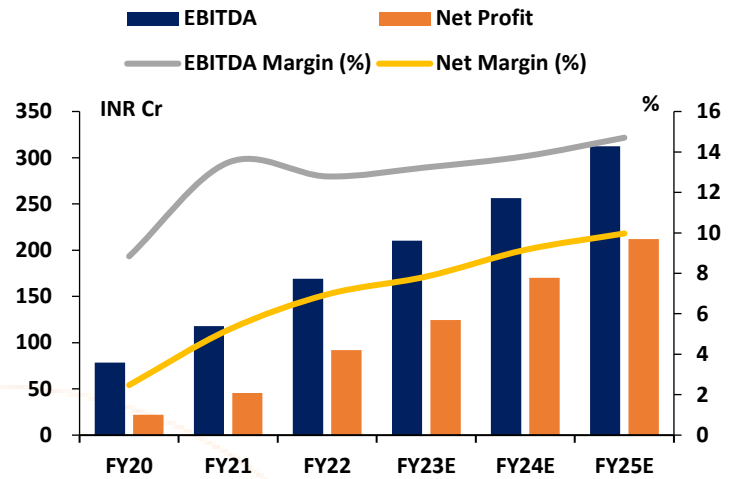
Fig in INR Cr (unless specified)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Revenue from operations	885.9	873.8	1,321.5	1,589.4	1,859.3	2,125.2	2,367.7	2,631.3	2,860.2	3,087.6	3,313.4	3,562.5
YoY Growth (%)		(1.4)	51.2	20.3	17.0	14.3	11.4	11.1	8.7	7.9	7.3	7.5
Raw Material Cost	458.1	414.7	739.7	917.5	1,054.7	1,194.9	1,325.3	1,466.3	1,586.7	1,705.1	1,821.6	1,956.7
RM Cost to Sales (%)	51.7	47.5	56.0	57.7	56.7	56.2	56.0	55.7	55.5	55.2	55.0	54.9
Employee Cost	149.0	146.4	158.0	190.5	223.3	254.5	288.2	320.2	357.5	394.5	431.4	467.4
Employee Cost to Sales (%)	16.8	16.8	12.0	12.0	12.0	12.0	12.2	12.2	12.5	12.8	13.0	13.1
Other Expenses	200.4	194.9	254.7	271.0	324.9	363.3	395.7	441.0	471.7	503.2	534.1	564.9
Other Expenses to Sales (%)	22.6	22.3	19.3	17.1	17.5	17.1	16.7	16.8	16.5	16.3	16.1	15.9
EBITDA	78.3	117.8	169.0	210.4	256.4	312.5	358.5	403.8	444.4	484.8	526.3	573.5
EBITDA Margin (%)	8.8	13.5	12.8	13.2	13.8	14.7	15.1	15.3	15.5	15.7	15.9	16.1
EBIT	43.1	83.6	133.7	172.1	213.9	266.2	308.9	350.6	388.1	425.8	464.7	509.2
EBIT Margin (%)	4.9	9.6	10.1	10.8	11.5	12.5	13.0	13.3	13.6	13.8	14.0	14.3
Interest	32.8	30.0	24.6	21.6	11.7	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Interest cost to Sales (%)	3.7	3.4	1.9	1.4	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	21.9	45.4	91.9	124.6	170.3	211.9	246.5	285.2	318.1	348.7	382.1	419.9
Net Margin (%)	2.5	5.2	7.0	7.8	9.2	10.0	10.4	10.8	11.1	11.3	11.5	11.8
Adjusted EPS	2.4	5.0	10.1	13.7	18.7	23.3	27.1	31.3	34.9	38.3	41.9	46.1
P/E (X)	137.2	66.2	32.7	24.1	17.7	14.2	12.2	10.5	9.4	8.6	7.9	7.2
Adjusted BVPS	74.4	85.4	104.4	220.3	254.3	295.9	343.2	396.8	453.5	511.3	570.2	629.0
P/BV (X)	4.4	3.9	3.2	1.5	1.3	1.1	1.0	0.8	0.7	0.6	0.6	0.5
Enterprise Value	3,354.7	3,300.2	3,339.1	2,899.8	2,864.0	2,765.2	2,662.7	2,554.9	2,386.1	2,225.5	2,062.3	1,889.1
EV/EBITDA (X)	42.8	28.0	19.8	13.8	11.2	8.8	7.4	6.3	5.4	4.6	3.9	3.3
Net Worth	372.0	427.2	521.9	1,101.4	1,271.7	1,479.4	1,716.0	1,984.1	2,267.3	2,556.7	2,850.8	3,144.8
Return on Equity (%)	5.9	10.6	17.6	11.3	13.4	14.3	14.4	14.4	14.0	13.6	13.4	13.4
Capital Employed	784.1	775.7	900.3	1,334.3	1,370.4	1,479.4	1,716.1	1,984.2	2,267.3	2,556.7	2,850.8	3,144.8
Return on Capital Employed (%)	3.8	8.1	10.8	9.6	11.7	13.5	13.5	13.2	12.8	12.5	12.2	12.1
Invested Capital	720.3	721.1	854.6	994.9	1,129.5	1,238.3	1,372.4	1,532.7	1,647.1	1,775.8	1,906.8	2,027.5
Return on Invested Capital (%)	6.0	11.6	15.6	17.3	18.9	21.5	22.5	22.9	23.6	24.0	24.4	25.1
Return on Incremental IC (%)	12.0	5,173.5	37.5	27.4	31.1	48.1	31.9	26.0	32.8	29.3	29.6	36.9
Cash Flow from Operations	112.9	121.2	36.5	93.9	143.9	207.8	216.6	229.2	311.2	330.5	367.2	418.8
Cash Flow from Investing	(64.6)	(20.0)	(51.8)	(89.6)	(98.3)	(105.6)	(110.8)	(123.7)	(143.4)	(126.3)	(158.9)	(128.8)
Cash Flow from Financing	(38.3)	(92.4)	3.7	287.8	(145.8)	(106.4)	(9.9)	(17.1)	(35.0)	(59.3)	(87.9)	(126.0)
Net Cash Flow	10.1	8.8	(11.6)	292.1	(100.3)	(4.2)	95.9	88.4	132.7	145.0	120.4	164.1
Free Cash Flow	(282.4)	51.3	(35.7)	(19.4)	9.0	48.6	89.3	116.5	172.6	186.4	213.3	257.0
FCF to Revenue (%)	(31.9)	5.9	(2.7)	(1.2)	0.5	2.3	3.8	4.4	6.0	6.0	6.4	7.2
FCF to EBITDA (%)	(360.6)	43.6	(21.1)	(9.2)	3.5	15.6	24.9	28.9	38.8	38.5	40.5	44.8
FCF to Net Profit (%)	(1,289.0)	112.9	(38.8)	(15.6)	5.3	22.9	36.2	40.8	54.3	53.5	55.8	61.2
FCF to Net Worth (%)	(75.9)	12.0	(6.8)	(1.8)	0.7	3.3	5.2	5.9	7.6	7.3	7.5	8.2
CFO to EBITDA (%)	144.2	102.9	21.6	44.6	56.1	66.5	60.4	56.8	70.0	68.2	69.8	73.0
Total Debt	412.1	348.5	378.5	232.8	98.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt	348.4	293.9	332.8	(106.5)	(142.3)	(241.1)	(343.6)	(451.4)	(620.2)	(780.8)	(944.0)	(1,117.2)
Net Debt to Equity (X)	0.9	0.7	0.6	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Net Debt to EBITDA (X)	4.4	2.5	2.0	(0.5)	(0.6)	(0.8)	(1.0)	(1.1)	(1.4)	(1.6)	(1.8)	(1.9)

Source: Company Reports

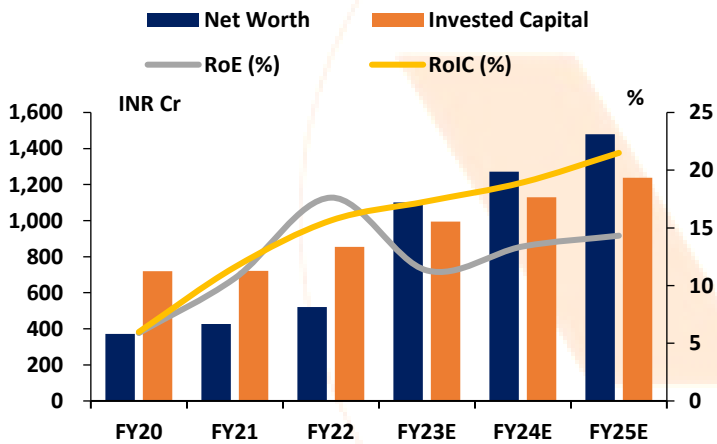
Catering to multiple industries to ensure healthy revenue growth



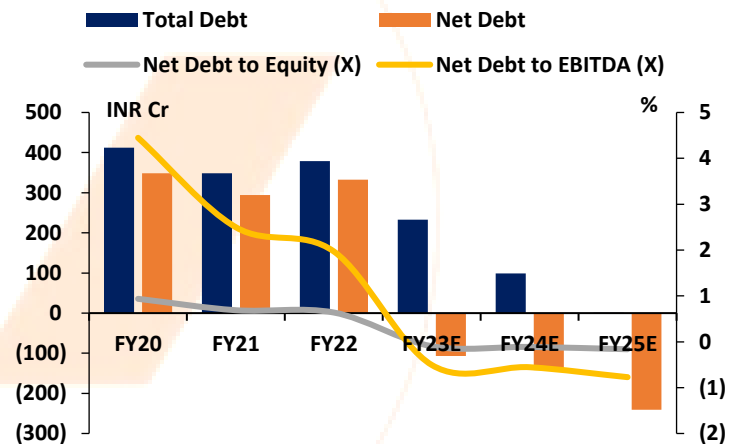
Better product mix to drive profitability



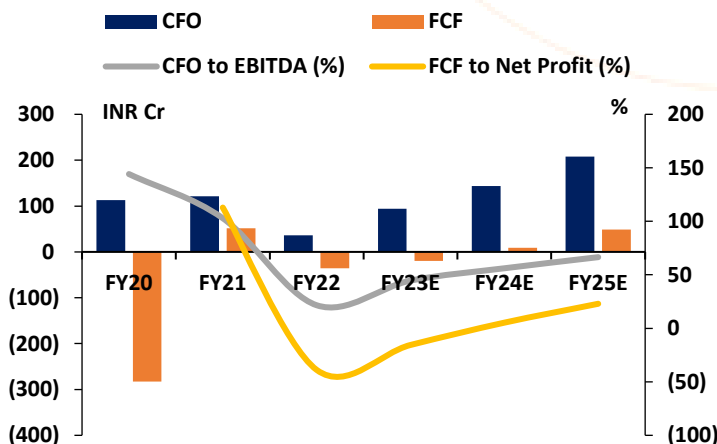
Retrun ratios to follow the improvement in profitability



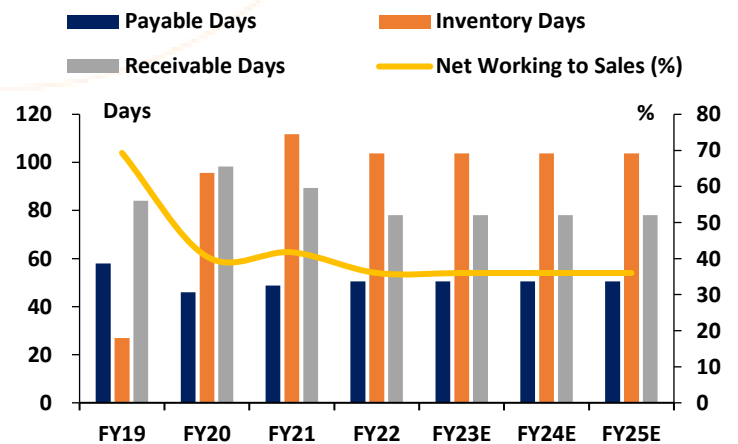
Debt repayment from IPO proceeds to improve the balance sheet health



Debt free balance sheet and limited near term capex to enhance cash flow



Working capital to remain stable at current levels

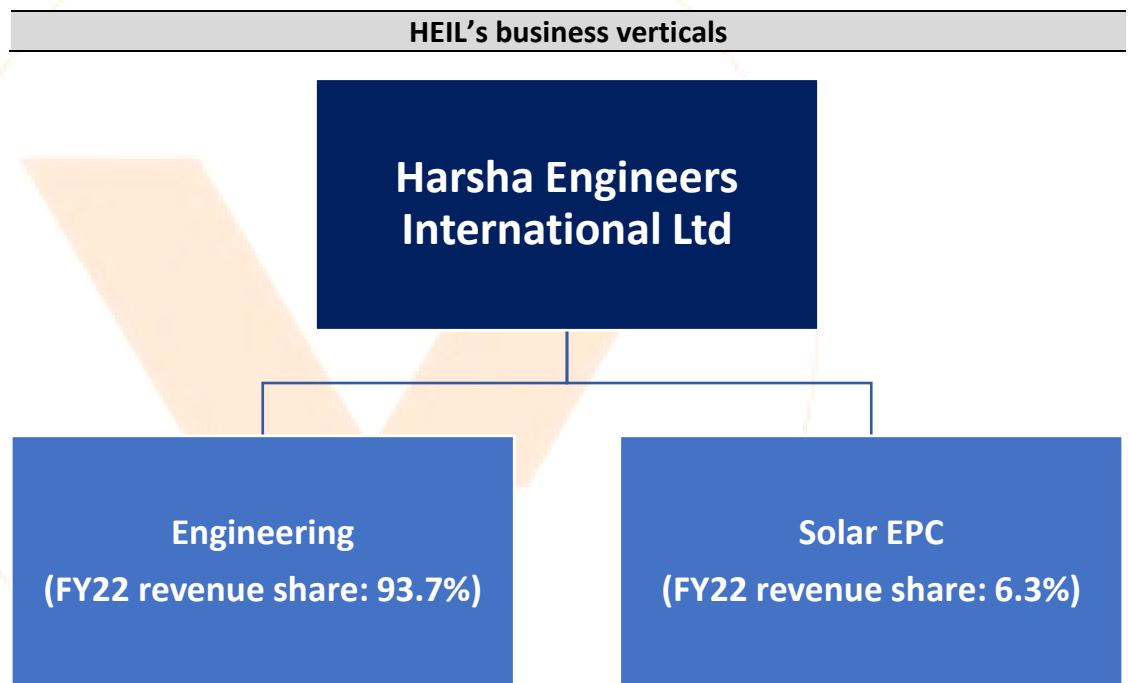


Source: Company Reports

Company Overview

Incorporated in 2010, Harsha Engineers International Ltd (HEIL) is one of the largest manufacturers of precision bearing cages - With a market share of 50-60% in India and 6-7% globally. The company supplies its products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. The business comprises two segments:

- Engineering business, under which the company manufactures bearing cages (in brass, steel and polyamide materials), complex and specialized precision stamped components, welded assemblies and brass castings and cages & bronze bushings.
- Solar EPC business, under which the company provide complete comprehensive turnkey solutions to all solar photovoltaic requirements and provides operations and maintenance services in the solar sector.



Source: Company Reports

HEIL has four strategically located manufacturing facilities spread across three countries in India, China, and Romania. The aggregate installed capacity across these manufacturing facilities was 4,596 metric tonnes per annum for castings and 1,098 mn pieces per annum for bearing cages.

- India facilities – 1 manufacturing facility at Changodar and 1 at Moraiya, Gujarat.
- Overseas facilities – 1 manufacturing unit each in Changshu, China and 1 in Ghimbav Brasov in Romania

Additionally, to meet the just-in-time requirements of its customers, HEIL has entered arrangements to stock inventory in warehouses in over 20 locations across the world.

HEIL's manufacturing capacities

4 production units for engineering business spread across 3 countries



Aggregate installed capacity

1,097.87 Mn pieces

Annual capacity for Bearing Cages
As at March 31, 2022

61.74%

Capacity Utilization
For Fiscal 2022

+

4,596 MT

Annual capacity for castings*
As at March 31, 2022

63.35%

Capacity Utilization
For Fiscal 2022

+

> 100 CNC machines

capacity to machine from 50 mm to
1,200 mm

+

> 175 presses

With capacities ranging from 4T-
1000T

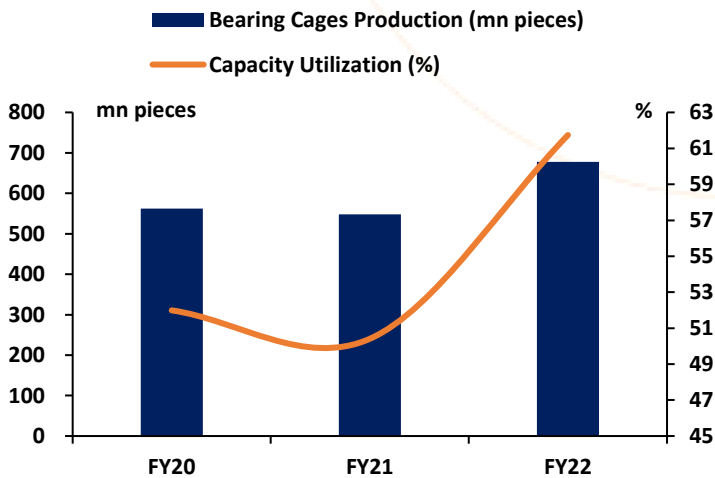


Source: Company Reports

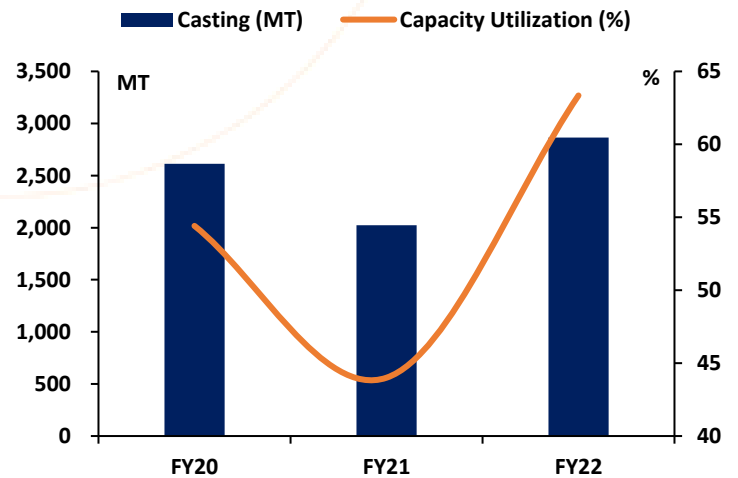
With the current capacity utilization at 60%, HEIL doesn't require any significant capex in the near term. Repayment of INR 277 cr of debt through the IPO fresh issue will make the balance sheet and cash flow healthy for the expenditure on any future capex after 2-3 years.

HEIL's production volumes and capacity utilization

Bearing cage prod. & capacity utilization



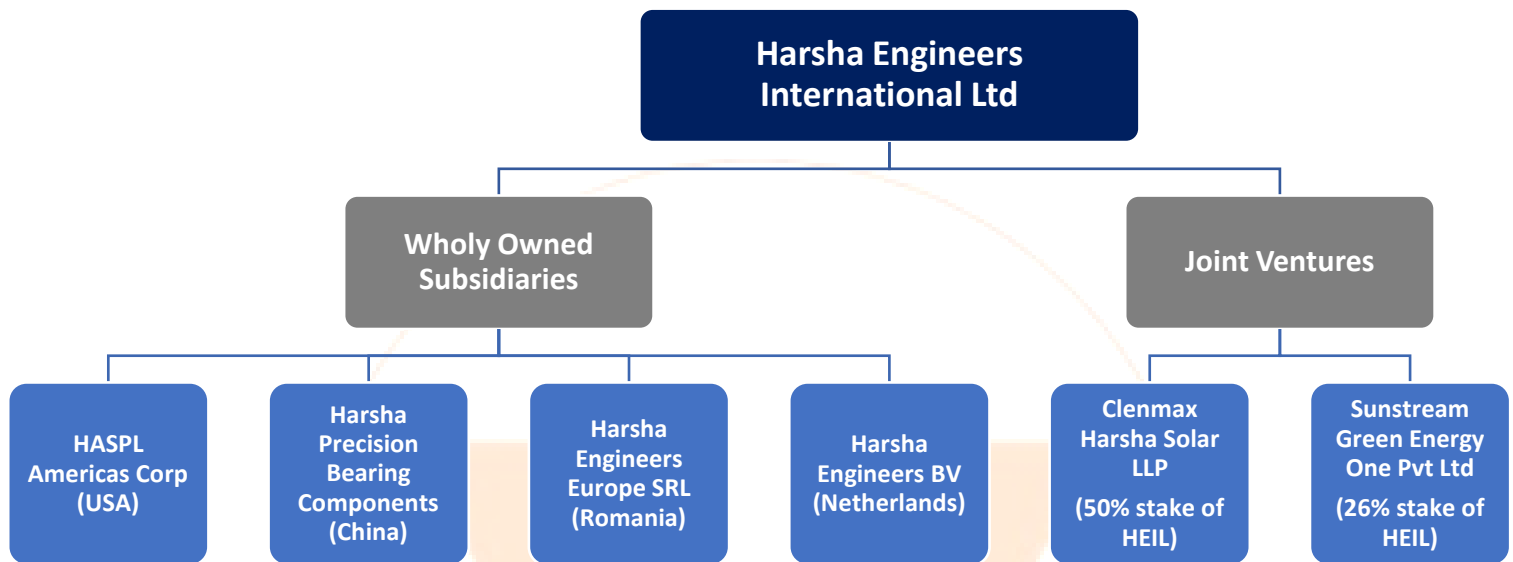
Casting prod. & capacity utilization



Source: Company Reports

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

HEIL's subsidiaries and joint ventures



Source: Company Reports

Products – Bearing cages, Bronze Bushes for sliding bearing, Specialty components and Solar EPC

HEIL manufactures bearing cages, semi-finished brass castings, speciality stamping components and bronze castings and bushings

Bearing Cages

The bearing cage category comprises roller cages and ball-bearing cages. The cages offer high rigidity, strength and high heat resistant operating conditions. HEIL manufactures precision bearing cages that form one of the 5 components of a bearing; other such components are, the inner ring, outer ring and rolling elements like rollers or balls and cages. Bearing cages are primarily utilized to:

- separate the rolling elements, reducing the frictional heat generated in the bearing;
- keep the rolling elements evenly spaced, optimizing load distribution on the bearing;
- guide the rolling elements in the unloaded zone of the bearing; and
- retain the rolling elements of separable bearings when one bearing ring is removed during mounting or dismounting.

HEIL caters to the bespoke needs of their customers, by customizing the type of base material, as well as the design to be applied for the bearing cages. Such customization is generally dependent upon the operating conditions under which the bearings will be generally utilized by their customers.

While bearing cages can be manufactured using various materials, HEIL primarily manufactures bearing cages out of brass, steel and polyamide, which represent the most common types of base materials used in the bearing cages market. Their dedicated product development and innovation centre and tool production facilities are at Changodar Plant. Over the past 5 years, the product development and innovation centre has developed more than 7,500 types of products for different bearing cage and stamping divisions.

Steel Cages

HEIL offers various grades of steel cages as per the requirements of its customers. Owing to its lightweight nature, frictionless wear and high strength, such steel cages are widely in demand. The size of the steel cages ranges up to 1,000 mm and HEIL manufactures more than 3,700 types of steel cages. Steel bearing cages can be used at operating temperatures of up to 300 °C (570 °F).

Brass Cages

HEIL produces more than 3500 types of brass cages. The size of the brass cages ranges up to 2000 mm and foundry castings up to 2000 mm. Brass cages are generally manufactured from semi-finished brass castings which may be cast in-house and then machined into bearing cages or stamped from brass strips or turned out of brass tubes. Brass bearing cages can be used at temperatures of up to 250 °C (480 °F).

Polyamide Cages

HEIL offers injection moulded polyamide cages. The features of such cages include being corrosion resistant and light in weight owing to the presence of high polymers materials. HEIL manufactures more than 80 types of polyamide cages with sizes ranging up to 300 mm including thrust ball bearings, cylindrical roller thrust bearings, linear ball bearings, water pump bearings and other special types of bearings.

Bearing cages are made in different designs depending on their operating conditions.

- **Cylindrical roller bearing cages** - Designed for radial load carrying capability, which demands high stiffness and high accuracy. Primarily used in industrial machines, pumps, compressors, OEMs and traction motors for railways.
- **Spherical Roller Bearing Cages** - Designed for carrying a radial load and combined load applications which allows tolerance for misalignment in operation. Primarily used in crushers, railways, steel mills, thermal turbines and windmills.

- **Deep Groove Bearing Cages** - Designed for high speed and high running accuracy with low friction and noiseless operation. Primarily used in agricultural machines, automotive parts, chemical machinery, utilities and white appliances.
- **Angular Contact Ball Bearing Cages** - Designed for carrying axial and combined loads with high running accuracy. Primarily used in agricultural machines, chemical machinery, general industries and utilities.
- **Thrust Roller Cages** - Designed for carrying axial loads which demand high running accuracy and bearing arrangements. Primarily used in blowout preventers, extruders, gearboxes, offshore drilling and oil rigs.
- **Taper Roller Cages** - Designed for combined axial and radial load applications with demand high accuracy. Primarily used in engine applications.

Bronze Bushes for Sliding bearing

HEIL has diversified in producing bronze bushes for sliding bearing. These bushes are predominantly used in the gearboxes for Wind turning in Planetary Axels. Within bronze, HEIL is developing competencies for multiple bronze alloys namely Aluminium and Tin Bronze. These Bushes require high precision machining and assurance of all mechanical, chemical, dimensional and cleanliness properties because of the criticality of the application. HEIL manufactures semi-finished brass castings for their customers who, in turn, carry out processes for converting such semi-finished brass castings into a bearing cage. The majority of such semi-finished brass castings are manufactured by their Step-down Subsidiary in Romania.

Speciality Components

HEIL plans on capitalizing on the existing niche low volume high value products in the stamping and special component segment and continues to gradually scale up its business over the next 3 to 5 years. They plan to continue manufacturing specialized parts/components and supplying them to auto component assembly manufacturers. Currently, they provide comprehensive metal stamping solutions ranging from simple to complex designs and geometries. Precision stamping components generally have the following applications:

- **Automotive applications** – HEIL offers their customers high-quality precision parts for 2-wheeler and 4W applications as well as complete assembled modular units. They also manufacture steering, column parts, engine drive, transmission/gear drive parts, clutch components, gear shifters assembly parts, wheel covers, structural reinforcements, chassis parts and axle parts.
- **Industrial applications** – HEIL is a metal insert supplier for different metal and sealing applications that are primarily used as dust covers, bearing covers, slingers, flingers and seal inserts; One specific example is the metal inset used in railway bearing seal application.
- **Electrical and appliance applications** – HEIL offers high-quality stamping products for the electrical and appliance industry. One specific example is AC compressor Head and base cover welded assembly supplied to a leading appliance compressor

manufacturer. Further, they have the capability of electrical switch gear, demonstrating a unique ability to streamline the production of even the smallest, most complex electronic stampings, while ensuring complete accuracy and cost efficiency.

Positive diversification in Solar EPC space

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 the rooftop segment as of 31st Mar 2022.

HEIL's competitive strengths

Comprehensive solution provider offering a 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 organized outsourced bearing (brass, steel & polyamide) cages market in CY21.

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, and renewables sectors.

Long-standing relationships with leading clientele

HEIL has established a strong relationship with its customers who are leading global bearing manufacturers in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, and renewables sectors. The bearing cages market globally is concentrated among a few global bearing manufacturers with Top-6 global bearing manufacturers contributing 54% of the market share in FY22.

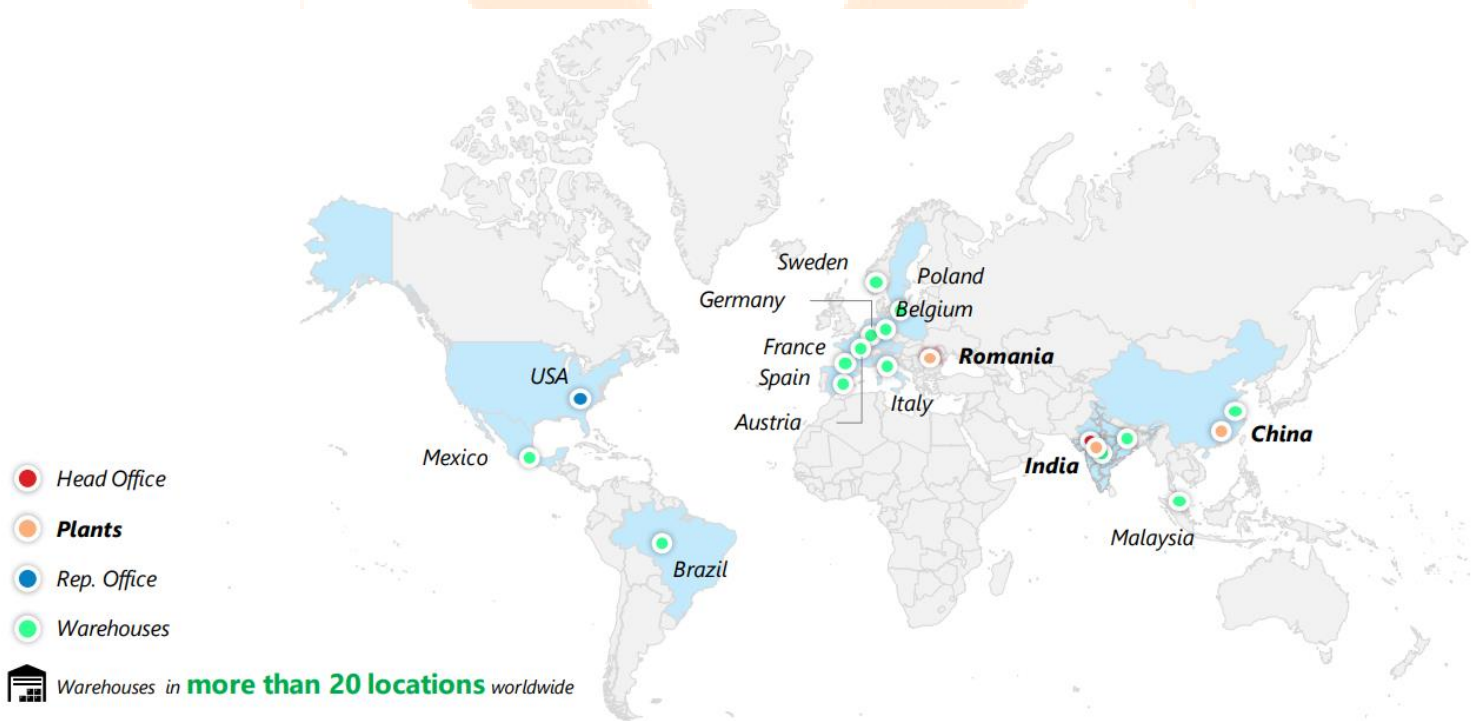
As of 31st Mar 2022, HEIL supplies to each of the Top-6 global bearing manufacturers. Their Top-10 customers contributed 44.70%, 48.24%, and 47.79% of their total revenue from operations for FY22, FY21 and FY20, respectively. The average age of their relationship with their Top-5 customer groups spans 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 have 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

The 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 become a local supplier to leading key global bearing players. Their presence in these strategic locations helps 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.

HEIL's manufacturing and business locations



Source: Company Reports

Additionally, they have entered arrangements to stock inventory in warehouses in over 20 locations across the world. Its multinational presence has also allowed them to diversify its revenue geographically and enhanced its 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, and 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 sizes up to 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 which has allowed them to successfully diversify their products portfolio and improve their current processes in a different types of bearing cages.

A 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

The company's focus on operational and functional excellence has contributed to its 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.

Management Team

Key Person	Designation	Details
Mr Rajendra Shah	Chairman & Whole Time Director	He holds a bachelor's degree in Mechanical Engineering from Lukhdhirji Engineering College, Morbi. 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.
Mr Harish Rangwala	Managing Director	He holds a bachelor's degree in Mechanical Engineering from Lukhdhirji Engineering College, Morbi. He served at Tata Chemicals and thereafter joined HEIL. Currently, he is looking after overall management of the company along with Renewable energy division.
Mr Vishal Rangwala	CEO & Whole Time Director	He holds a bachelor's degree in Mechanical Engineering from University of Pune. He further holds a Master of Science degree in Engineering Management from University of Southern California. In 2005, he was appointed as a senior staff analyst at United Service - a division of United Airlines.
Mr Pilak Shah	COO & Whole Time Director	He holds a bachelor's degree in Mechanical Engineering from Nirma Institute of Technology. He further holds a master's degree in Integrated Manufacturing Systems Engineering from North Carolina State University
Mrs Hetal Ukani	Whole Time Director	She holds the bachelor's degree in Mechanical Engineering from L.D. Engineering College and has completed Master of Technology in Mechanical Engineering with specialization in Design Engineering. 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
Mr Maulik Jasani	CFO	He holds a bachelor and master's degree in Commerce from the H.L. Commerce College, Gujarat University and R.J. Tibrewal Commerce College, Gujarat University respectively. He is also a member of the ICAI, ICSI and the Institute of Cost Accountants of India. He has over 17 years (including three years of articleship) of experience in accounting and finance.

Source: Company Reports

Key Risks & Concerns

- The company earns ~70% of its revenues from export and its business depends on the demand from global companies for a significant portion of its revenue. Any downturn in the global market could adversely affect business performance. The company deals in various global currencies, which is a very volatile instrument.
- HEIL depend on a limited number of customer groups for a significant portion of its business. The loss of any of its major customer groups due to any adverse development or significant reduction in business from a major customer group may adversely affect the business.
- An increase in low-cost manufacturing activities in Vietnam, Thailand, Indonesia, Malaysia and the Philippines could create competition in HEIL's export market.

Issue Structure and Offer Details

The proposed issue size of HEIL's IPO is INR 755 cr (INR 455 cr fresh issue and INR 300 cr OFS) and the price band for the issue is in the range of INR 314-330 and the bid lot is 45 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares offered
QIB	Not more than 50%	1,14,01,470
Non Institutional Investors	Not less than 15%	34,20,450
Retail Investors	Not less than 35%	79,81,065
Employees	NA	83,610

Number of shares based on a higher price band of INR 330

Source: Company Reports

Details of the selling shareholders		
Promoters selling shares	Amount offered	No. of shares
Mr Harish Rangwala	Upto INR 75.0 cr	Upto 2,272,725 shares
Mr Rajendra Shah	Upto INR 66.8 cr	Upto 2,022,725 shares
Mr Pilak Shah	Upto INR 16.5 cr	Upto 499,998 shares
Mrs Charusheela Rangwala	Upto INR 75.0 cr	Upto 2,272,725 shares
Mrs Nirmala Shah	Upto INR 66.8 cr	Upto 2,022,725 shares

The amount is based on a higher price band of INR 330

Source: Company Reports

HEIL' Financial Summary and Analysis

Fig in INR Cr (unless specified)	FY21	FY22E	FY23E	FY24E	FY25E	Fig in INR Cr (unless specified)	FY21	FY22E	FY23E	FY24E	FY25E
Income Statement						Per share data & Yields					
Revenue	873.8	1,321.5	1,589.4	1,859.3	2,125.2	Adjusted EPS (INR)	5.0	10.1	13.7	18.7	23.3
YoY Growth (%)	-1.4	51.2	20.3	17.0	14.3	Adjusted Cash EPS (INR)	8.7	14.0	17.9	23.4	28.3
Raw Material Cost	414.7	739.7	917.5	1,054.7	1,194.9	Adjusted BVPS (INR)	46.9	57.3	120.9	139.6	162.4
RM Cost to Sales (%)	47.5	56.0	57.7	56.7	56.2	Adjusted CFO per share (INR)	13.3	4.0	10.3	15.8	22.8
Employee Cost	146.4	158.0	190.5	223.3	254.5	CFO Yield (%)	4.0	1.2	3.1	4.8	6.9
Employee Cost to Sales (%)	16.8	12.0	12.0	12.0	12.0	Adjusted FCF per share (INR)	5.6	-3.9	-2.1	1.0	5.3
Other Expenses	194.9	254.7	271.0	324.9	363.3	FCF Yield (%)	1.7	-1.2	-0.6	0.3	1.6
Other Exp to Sales (%)	22.3	19.3	17.1	17.5	17.1	Solvency Ratio (X)					
EBITDA	117.8	169.0	210.4	256.4	312.5	Total Debt to Equity	0.8	0.7	0.2	0.1	0.0
Margin (%)	13.5	12.8	13.2	13.8	14.7	Net Debt to Equity	0.7	0.6	-0.1	-0.1	-0.2
YoY Growth (%)	50.3	43.5	24.5	21.9	21.9	Net Debt to EBITDA	2.5	2.0	-0.5	-0.6	-0.8
Depreciation & Amortization	34.1	35.4	38.3	42.5	46.3	Return Ratios (%)					
EBIT	83.6	133.7	172.1	213.9	266.2	Return on Equity	10.6	17.6	11.3	13.4	14.3
Margin (%)	9.6	10.1	10.8	11.5	12.5	Return on Capital Employed	8.1	10.8	9.6	11.7	13.5
YoY Growth (%)	94.2	59.8	28.8	24.3	24.4	Return on Invested Capital	11.6	15.6	17.3	18.9	21.5
Other Income	7.1	17.5	16.0	25.4	20.5	Working Capital Ratios					
Finance Cost	30.0	24.6	21.6	11.7	3.5	Payable Days (Nos)	49	50	50	50	50
Interest Coverage (X)	2.8	5.4	8.0	18.3	76.4	Inventory Days (Nos)	112	104	104	104	104
Exceptional Item	0.0	0.0	0.0	0.0	0.0	Receivable Days (Nos)	89	78	78	78	78
PBT	60.7	126.6	166.5	227.6	283.2	Net Working Capital Days (Nos)	152	131	131	131	131
Margin (%)	7.0	9.6	10.5	12.2	13.3	Net Working Capital to Sales (%)	41.7	36.0	36.0	36.0	36.0
YoY Growth (%)	92.2	108.5	31.5	36.7	24.4	Valuation (X)					
Tax Expense	15.3	34.7	41.9	57.3	71.3	P/E	66.2	32.7	24.1	17.7	14.2
Tax Rate (%)	25.2	27.4	25.2	25.2	25.2	P/BV	7.0	5.8	2.7	2.4	2.0
PAT	45.5	91.9	124.6	170.3	211.9	EV/EBITDA	28.0	19.8	13.8	11.2	8.8
Margin (%)	5.2	7.0	7.8	9.2	10.0	EV/Sales	3.8	2.5	1.8	1.5	1.3
YoY Growth (%)	107.3	102.3	35.5	36.7	24.4	Cash Flow Statement					
Min Int/Sh of Assoc	-0.0	0.0	0.0	0.0	0.0	PBT	60.7	126.6	166.5	227.6	283.2
Net Profit	45.4	91.9	124.6	170.3	211.9	Adjustments	81.3	62.4	65.7	70.8	91.7
Margin (%)	5.2	7.0	7.8	9.2	10.0	Change in Working Capital	-5.6	-121.4	-96.4	-97.2	-95.7
YoY Growth (%)	107.4	102.3	35.5	36.7	24.4	Less: Tax Paid	-15.3	-31.1	-41.9	-57.3	-71.3
Balance Sheet						Cash Flow from Operations	121.2	36.5	93.9	143.9	207.8
Share Capital	50.0	77.2	91.1	91.1	91.1	Net Capital Expenditure	-39.8	-46.7	-90.0	-96.3	-101.1
Total Reserves	377.2	444.6	1,010.3	1,180.6	1,388.3	Change in Investments	19.8	-5.1	0.4	-2.0	-4.5
Shareholders Fund	427.2	521.9	1,101.4	1,271.7	1,479.4	Cash Flow from Investing	-20.0	-51.8	-89.6	-98.3	-105.6
Long Term Borrowings	101.5	137.8	57.8	27.8	0.0	Change in Borrowings	-62.4	28.3	-145.6	-134.1	-98.7
Deferred Tax Assets / Liabilities	2.0	4.0	4.0	5.9	5.9	Less: Finance Cost	-30.0	-24.6	-21.6	-11.7	-3.5
Other Long Term Liabilities	9.7	7.7	9.3	10.8	12.4	Proceeds from Equity	0.0	0.0	455.0	0.0	0.0
Long Term Trade Payables	0.0	0.0	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0	0.0	0.0
Long Term Provisions	9.5	11.1	13.3	15.6	17.8	Dividend Paid	0.0	0.0	0.0	0.0	-4.2
Total Liabilities	549.9	682.4	1,185.8	1,332.0	1,515.6	Cash flow from Financing	-92.4	3.7	287.8	-145.8	-106.4
Net Block	342.4	355.7	407.4	461.2	516.1	Net Cash Flow	8.8	-11.6	292.1	-100.3	-4.2
Capital Work in Progress	3.3	2.1	0.0	0.0	0.0	Forex Effect	0.0	0.0	0.0	0.0	0.0
Intangible assets under developm	0.0	0.0	0.0	0.0	0.0	Opening Balance of Cash	24.3	33.1	21.4	313.5	213.2
Non Current Investments	0.0	0.7	0.8	0.9	1.1	Closing Balance of Cash	33.1	21.4	313.5	213.2	209.1
Long Term Loans & Advances	12.3	11.1	13.3	16.0	18.3						
Other Non Current Assets	6.0	8.6	10.4	12.2	13.9						
Net Current Assets	185.9	304.2	753.9	841.6	966.2						
Total Assets	549.9	682.4	1,185.8	1,332.0	1,515.6						

Source: Ventura Research

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