



**Impressive background and business model..**

Harsha Engineers International Limited ("HEIL") was incorporated on December 11, 2010. The Company is a part of the Harsha Group which was established in 1986 and has over 35 years of operating history in the engineering business. The Company 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. (Source: CARE Advisory Report).

The Company offers diversified suite of precision engineering products across geographies and end-user industries. The Company's business comprises: (i) engineering business, under which the Company 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 (ii) solar EPC business, under which the Company 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. (Source: CARE Advisory Report).

The Company offers 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 spread across 3 countries in India, China, and Romania 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. As on March 31, 2022, the Company's aggregate installed capacity across these manufacturing facilities was 4,596 MTPA for castings and 1,097.87 million pieces p.a. for bearing cages. HEIL supply products to customers in over 25 countries covering 5 continents i.e., North America, Europe, Asia, South America and Africa. To help them meet 'just in time' requirements of their customers, the Company has entered into arrangements to stock inventory in warehouses spread across more than 20 locations across the world including in, Europe, US, China and South America. The Company's multinational presence has also allowed them to diversify their revenue geographically.

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. The Company has 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. As of March 31, 2022, we 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 us to meet changing customer requirements. In addition, over the past three years its product development and innovation centre has developed more than 1,200 products in different bearing types.

Type of Issue	Fresh issue: ₹ 455 Crore Offer for sale: ₹ 300 Crore
Issue size	₹755 Crore at the upper end of the price band
Employee reservation	₹2.50 Crore
Issue date	Sep. 14, 2022 - Sep. 16, 2022
Listing date	September 26, 2022
Price Band	₹314 - ₹330 (Face value: ₹ 10)
Employee discount	₹31 per share
Bid lot	45 equity shares and in multiple thereof
Issue structure	QIB - 50%, NIB - 15%, Retail - 35%
Post issue shares	9.104 Crore equity shares at upper end of the price band
Promoters	Pre IPO: 57.43%   Post IPO: 43.46%
Promoters Group	Pre IPO: 42.27%   Post IPO: 31.15 %
Public	Pre IPO: 0.30%   Post IPO: 25.39 %
Post issue market cap	₹3,005 Crore
BRLMS	Axis Capital, Equirus Capital, JM Financial
Registrar to the issue	Link Intime India Pvt. Ltd.

Particulars (₹ Crore)	FY22	FY21	FY20
Revenue from operations	1,321.48	873.75	885.85
EBITDA	186.58	124.96	100.06
EBITDA (%)	14.12	14.30	11.29
Profit before tax	126.62	60.72	31.59
Net Profit for the period	91.94	45.44	21.91
PAT margin (%)	6.87	5.18	2.44
Equity share cap.	77.25	50.00	50.00
Networth	527.90	433.22	378.02
Net Debt	356.59	322.08	393.10
Book value per share(₹)	68.34	86.64	75.60
Post IPO EPS (₹)	10.09	4.99	2.40
P/E (x)	32.7	66.13	137.5
RoNW (%)	17.42	10.49	5.80

Source: RHP, Restated Consolidated

**Investment recommendation and rationale**

**At the upper end of the price band of ₹330, the Company's IPO is valued at P/E of 32.7x at post IPO FY22 EPS which we believe is decent considering its strengths. We recommend "SUBSCRIBE" to the issue owing to the following factors: a) Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end-user industries, b) 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. (Source: CARE Advisory Report), c) 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 (Source: CARE Advisory Report), d) Long standing relationships with leading clientele, e) Strategically located domestic and international production facilities and warehouses, f) Expertise in Tooling, design development and automation, g) Consistent track record of growth and financial performance, h) repayment of the debt post IPO would make Company's balance sheet much stronger, i) Strong, experienced and dedicated senior management team and qualified workforce, Experienced promoters and management team with strong domain expertise.**

**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. (Source: CARE Advisory Report) 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 HEIL. (Source: CARE Advisory Report).

#### About its Subsidiaries, Joint Venture and Associate

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 Cleanmax Harsha Solar LLP and 26% equity interest in Sunstream Green Energy One Pvt. Ltd. (formerly known as Eirene Naval Systems Private Limited).

#### Revenue breakup

Region	Fiscal 2022		Fiscal 2021		Fiscal 2020	
	Amount (₹ in Crore)	% of total revenue	Amount (₹ in Crore)	% of total revenue	Amount (₹ in Crore)	% to total revenue
Europe	500.63	37.88%	342.58	39.21%	341.16	38.51%
India	401.90	30.41%	235.07	26.90%	258.52	29.18%
China	172.64	13.06%	131.86	15.09%	114.85	12.96%
America	82.34	6.23%	62.20	7.12%	64.14	7.24%
Other	81.02	6.13%	47.85	5.48%	43.00	4.85%
<b>Total</b>	<b>1,238.54</b>	<b>93.72%</b>	<b>819.56</b>	<b>93.80%</b>	<b>821.66</b>	<b>92.74%</b>

Source: RHP

#### 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. Within the Company's 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. The Company manufactures 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. The Company has recently expanded its 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 its 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 (Source: CARE Advisory Report). As of March 31, 2022, HEIL supplies to each of the Top-6 global bearing manufacturers. The Company's Top-10 customers contributed to 44.70%, 48.24%, and 47.79% of the Company's 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.

The Company's key customer groups are also key global bearing manufacturers who have been their customers for over a decade. The Company's customer-centric approach and continuous effort on transparent dealings has allowed them to enter into long term framework agreements with leading key global bearing manufacturers. The Company has 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 becoming a local supplier to leading key global bearing players. The Company's presence in these strategic locations help them penetrate global markets more efficiently and, in a cost effective, manner. It also gives them the ability to cater to the needs of their customers from multiple locations, at times designing products at one location while manufacturing them at another. Their dual-shore capabilities, which is their ability to carry out design, engineering and manufacturing of products at different locations allow them to service customer requirements from alternate locations, giving the

customer the benefit of regular supply and cost-competitive manufacturing operations. Additionally, they have entered arrangements to stock inventory in warehouses over 20 locations across the world. Their multinational presence has also allowed them to diversify their revenue geographically and enhanced their reputation which results in higher orders from India.

#### Expertise in Tooling, design development and automation

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

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

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

#### Consistent track record of growth and financial performance

Company's focus on operational and functional excellence has contributed to their track record of healthy financial performance. The Company's 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.

#### Strong, experienced and dedicated senior management team and qualified workforce

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. They leverage the understanding and the experience of their senior management in successfully managing their operations and growth. They also benefit significantly from the qualified and experienced second-generation management team. The management team includes a strong and experienced team of cross functional professionals across senior and mid-level management. In addition, they have a dedicated team of engineers along with other skilled and technically qualified workforce.

#### Objects of the issue

##### Fresh issue

Particulars	₹ 455 Crore
Pre-payment or scheduled repayment of a portion of the existing borrowing availed by the company;	₹ 270 Crore
Funding capital expenditure requirements towards purchase of machinery;	₹ 77.95 Crore
Infrastructure repairs and renovation of the existing production facilities including office premises in India;	₹ 7.12 Crore
General Corporate Purposes	-

Source: RHP

##### Offer for sale

Offer for sale: Name of the selling shareholder	Amount ₹ 300 Crore	Upto 17,242,368 Equity Shares	Average Cost of Acquisition (₹ per Equity Share)
<b>The Promoter Selling Shareholder:</b>			
Harish Rangwala	₹ 75 Crore	Upto 2,388,533~ - 2,272,725^ Equity Shares#	10.85
Rajendra Shah	₹ 66.75 Crore	Upto 2,125,794~ - 2,022,725^ Equity Shares#	6.04
Pilak Shah	₹ 16.50 Crore	Upto 525,475~ - 499,998^ Equity Shares#	14.32
<b>The Promoter Group Selling Shareholders:</b>			
Charusheela Rangwala	₹ 75.00 Crore	Upto 2,388,533~ - 2,272,725^ Equity Shares#	1.85
Nirmala Shah	₹ 66.75 Crore	Upto 2,125,795~ - 2,022,726^ Equity Shares#	3.10

~ at lower price band and ^ upper price band); # shares are rounded/adjusted to the nearest.

Source: RHP



## Background

### Company and Directors

The company was incorporated on December 11, 2010. The company is the part of the Harsha Group which was established in 1986 and has over 35 years of operating history in the engineering business. Rajendra Shah, Harish Rangwala, Vishal Rangwala and Pilak Shah are the Promoters of the company and are in control of day-to-day affairs of the company. Currently, the promoters hold 44,360,749 Equity Shares, equivalent to 57.43% of the pre-Offer issued, subscribed and paid-up Equity Share capital of the company.

### Brief Biographies of Directors

**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.

**Hetal Ukani** is a Whole-time Director of the company. She has been associated with the company since 2015. 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 the Independent Director of the company. She has over 22 years of experience in teaching and research in the field of organizational behaviour.

### Key Managerial Personnel

**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. He was also associated with Biotech Vision Care Pvt Ltd as the chief financial officer.

**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 has been previously associated with Claris Injectables Ltd, John Energy Ltd, Sanghvi Forging and Engineering Ltd and Siemens Healthcare Diagnostic Ltd.



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