

Happy Forgings Limited

Issue Detail	
Price Band (Rs.)	Rs.808 – Rs.850
Face Value (Rs.)	2.00
Issue Size (Rs.)	1,008.59 Cr.
Issue Type	Book Built Issue IPO
Minimum lot	17 Shares
Issue Opens	December 19, 2023
Issue Closes	December 21, 2023
Listing on	BSE & NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	December 22, 2023
Unblocking of Funds	December 26, 2023
Credit of shares to Demat Account	December 26, 2023
Listing on exchange	December 27, 2023

Other Detail	
Book Running Lead Managers	JM Financial Limited, Axis Capital Limited, Equirus Capital Private Limited and Motilal Oswal Investment Advisors Limited.
Registrar	Link Intime India Private Limited.

IPO Shareholding (%)		
Category	Pre-Issue	Post-Issue
Promoters	88.24%	78.60%
Public	11.76%	21.40%
Total	100.00%	100.00%

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Company Background

Happy Forgings Limited (HFL) was incorporated on July 2, 1979, Happy Forgings Limited is the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India as of Fiscal 2023 in terms of forgings capacity.

The Company, through their vertically integrated operations, are engaged in engineering, process design, testing, manufacturing, and supply of a variety of components that are both margin accretive and value-additive.

The Company primarily cater to domestic and global original equipment manufacturers (“OEMs”) manufacturing commercial vehicles in the automotive sector, while in the non-automotive sector, they cater to manufacturers of farm equipment, off-highway vehicles and manufacturers of industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries.

The Company is among the few companies in India with the capability to manufacture and supply high precision safety critical components to leading OEMs including manufacturers of commercial vehicles, farm equipment, offhighway and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries.

Issue Details

The issue size is Rs. 1,008.59 Cr. which comprises of Fresh Issue of upto Rs.400 Cr. and Offer for Sale of Equity Shares upto Rs.608.59 Cr.

Issue Objectives

The company will achieve:

1. Purchase of equipment, plant and machinery.
2. Prepayment of all or a portion of certain outstanding borrowings availed by the Company and
3. General corporate purposes.

IPO Share Issue Structure

Category	Allocation	Number of Shares	Value at upper price band (Rs. in Cr.)
QIB (Institutional)	50%	59,32,901	504.30
Non Institutional	15%	17,79,870	151.29
Retail	35%	41,53,031	353.01
Total	100%	1,18,65,802	1008.59

Source: Company RHP, ACMIIL Research

Outlook

Happy Forgings Limited (HFL) is a fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India. The Company is having a diversified business model, well placed to take advantage of potential alternative engine technologies which all together witnessing a positive outlook for the future. At the upper price band of Rs. 850 /-, stock has valued at PE multiple of 36.45 of its FY23 Diluted EPS.

Company Overview

With over 40 years of experience of manufacturing and supplying quality and complex components according to customers' specifications, the Company has emerged as a leading player in the domestic crankshaft manufacturing industry with the second largest production capacity for commercial vehicle and high horse-power industrial crankshafts in India.

The Company's focus on producing margin accretive value-added products has led to their transition from being a forging led business to a machined components manufacturer.

It is among the few companies in India with the capability to manufacture and supply high precision safety critical components to leading OEMs including manufacturers of commercial vehicles, farm equipment, off highway and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries (Source: Ricardo Report). It is a supplier to each of the top five Indian OEMs, by market share, in the medium and heavy commercial vehicle industry and four of the top five Indian OEMs in the farm equipment industry by market share, in Fiscal 2023.

HFL's long-standing relationships with customers has positioned the company as a trusted supplier for several Indian and global OEMs. Some of its customers include AAM India Manufacturing Corporation Private Limited, Ashok Leyland Limited, Bonfiglioli Transmissions Private Limited, Dana India, IBCC Industries (India) Private Limited, International Tractors Limited, JCB India Limited, Liebherr CMCTec India Private Limited, Mahindra & Mahindra Limited, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, SML ISUZU Limited, Swaraj Engines Limited, Same Deutz Fahr India Private Limited, Tata Cummins Private Limited, Watson & Chalin India Private Limited (Hendrickson India Commercial Vehicle Systems) and Yanmar Engine Manufacturing India Private Limited.

Product Offerings

The Company's manufacture and supply a wide range of heavy forged and high precision machined components with closed tolerances (as low as 0.005 to 0.2 millimeter) that are critical for engine, transmission suspension, braking and chassis for the commercial vehicles in the automotive sector. The Company manufactures a wide range of heavy forged and machined products which include crankshafts, front axle beams, steering knuckles, differential cases, transmission parts, pinion shafts, suspension products and valve bodies across industries for a diversified base of customers.

<p>Crankshafts</p> <p>10 to 210 kgs</p>	<p>Front Axle Components</p> <p>Front Axle Beam (70 to 195 kgs) + Steering Knuckle (27 to 45 kgs)</p>	<p>Differential Case</p> <p>(5 - 40 kgs)</p>	<p>Suspension Products</p> <p>Brake Flange + Suspension Bracket (5 to 16 kgs)</p>
<p>Wind Turbine Industry</p> <p>Planetary Carrier (5 - 45 kgs) + Pinion Shaft (84 to 200 kgs) + Housing (35 to 105 kgs)</p>	<p>Railway Parts</p> <p>Bush + Connecting Rod + Camshaft + Piston Pin (5 to 40 kgs)</p>	<p>Oil and Gas Industry</p> <p>Valve Body (45 - 90 kgs)</p>	<p>Transmission Parts</p> <p>Shafts + Crown Wheel + Ring Gears (5 - 95 kgs)</p>

Source: Company RHP, ACMIIL Research

Industries Catered

Commercial Vehicle	Farm Equipment	Off Highway	Wind Turbine	Railways	Oil and Gas	Power Generation

Source: Company RHP, ACMIIL Research

Competitive Strengths

- Established Fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India.
- Integrated manufacturing operations coupled with in-house product and process design capabilities resulting in a diverse product portfolio with continuous value addition.
- Diversified business model, well placed to take advantage of potential alternative engine technologies.
- Long-standing relationship with customers across industries.
- Track record of consistently building capabilities and infrastructure, with focus on capital Efficiency.
- Experienced Promoters and senior management team.
- Track record of healthy financial performance.

Key Business Strategies

- Leverage in-house engineering and product development capabilities to grow their product portfolio and tap growing business opportunities in the industrial markets.
- Foray into lightweight forging and machining with introduction of aluminum components.
- Increase their wallet share and acquire new business by leveraging existing OEM relationships and adding new customers.
- Expand capacity at their existing manufacturing facilities.
- Capitalize on increasing demand from international markets to grow exports.
- Continue to reduce operating costs and improve operational efficiencies.
- Grow inorganically through strategic acquisitions and alliances.

Financial Snapshot (Consolidated)

Particulars (Rs in Mn.)	FY21	FY22	FY23	June 30, 2023
Revenue from Operations	5,849.58	8,600.46	11,965.30	6,729.00
EBITDA	1,587.46	2,308.87	3,409.40	1,952.14
EBITDA Margin	27.14%	26.85%	28.49%	29.01%
PAT	864.48	1,422.89	2,087.01	1,192.99
PAT Margin (%)	14.78%	16.54%	17.44%	17.73%
ROE %	13.40%	18.07%	21.12%	10.81%
ROCE %	16.13%	19.38%	24.24%	12.21%

Source: Company RHP, ACMIL Research

Comparison with Peers

Name of the company	Face value	Revenue from operations (Rs. in Mn.)	Diluted EPS (Rs.)	P/E	RoNW (%)
Happy Forgings Limited	2	11,965.30	23.32	36.45	21.12%
Bharat Forge Limited	2	1,29,102.59	11.35	102.63	7.88%
Craftsman Automation Limited	5	31,826.00	117.56	43.92	18.04%
Ramkrishna Forgings Limited	2	31,928.95	15.43	49.36	18.77%
Sona BLW Precision Forgings Limited	10	26,550.10	6.75	85.56	17.26%

Source: Company RHP, ACMIL Research

Risks and concerns

- The Company depends on a few suppliers for the supply of steel, their primary raw material. Further, they do not have definitive supply agreements with their suppliers for the supply of steel. Interruptions in the supply of steel could adversely affect their business.
- The Company's business largely depends upon their top 10 customers. The loss of any of these customers could have a material adverse effect on their business and financial conditions.
- The Company's business is dependent on the performance of certain industries particularly commercial vehicles, farm equipment and off-highway vehicles both in the Indian and overseas markets. Any adverse changes in the conditions affecting these industries can adversely impact their business.

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