

Recommendation	Subscribe
Price Band	Rs. 808-850
Bidding Date	19-21 December
Book Running Lead Manager	JM, Axis, Equirus, Motilal Oswal
Registrar	Link Intime India Pvt Ltd
Sector	Auto ancillary

#### Minimum Retail Application- Detail At Cut off Price

Number of Shares	17
Minimum Application Money	14450
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	860	1197
EBITDA	231	341
Adj PAT	192	280

Valuations (H1FY24 Annualis.)	Upper Band
Market Cap (Rs Cr)	8007
Adj EPS	25.3
PE	33.6
EV/ EBITDA	21.2
Enterprise Value (Rs Cr)	8266

Post Issue Shareholding Pattern	
Promoters	78.6
Public	21.4

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs Cr)	18.84
Issue Size (Rs Cr)	1009
Face Value (Rs)	2

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#### BACKGROUND

Founded in 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 in terms of forgings capacity. With over 40 years of experience in manufacturing and supplying quality and complex components, the Ludhiana-based company caters to domestic and global original equipment manufacturers (OEMs) manufacturing commercial vehicles, farm equipment, off highway and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries.

#### Objects and Details of the Issue:

Total issue size is Rs. 1009 Cr comprising of Rs. 400 Cr from Fresh Issue and Rs. 609 Cr from Offer For Sale.

Net Proceeds from the Fresh Issue shall be utilized towards:

- Purchase of equipment, plant and machinery worth Rs. 187 Cr.
- Prepayment of outstanding borrowings worth Rs. 153 Cr.

#### Investment Rationale:

- Global forging and machining market is expected to grow at a CAGR of 5% each by FY29E.
- Long-standing relationship with customers across industries.
- Strong and consistent financial performance.

#### Valuation and Recommendation:-

Happy Forgings has differentiated itself by (i) focusing on developing heavier, high precision, critical and value added products; (ii) for multiple end-use industries, which typically have extremely closed tolerances. This has translated to the company commanding substantially higher margins and return ratios compared to peers. The company's valuation at 38.4x FY23 P/E appears attractive compared to peers and thus we recommend to Subscribe to the IPO.

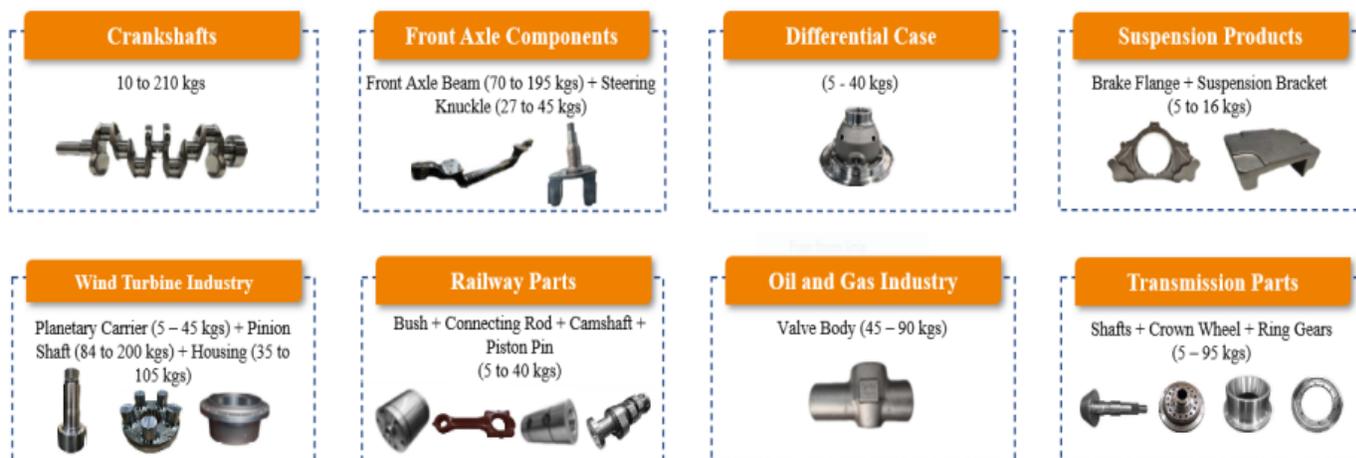
Financials (Rs Cr)	FY21	FY22	FY23	H1FY24 Annualised
Net Revenues	585	860	1197	1346
Growth	5%	47%	39%	12%
Adj. EBIDTA	159	231	341	390
Adj. EBIDTA Margins	27.1%	26.8%	28.5%	29.0%
Adj. PAT	86	142	209	239
Growth	8%	65%	47%	14%
Adj. EPS (Diluted)	9.2	15.1	22.2	25.3
ROCE	16%	19%	24%	24%
EV/Sales	13.9x	9.6x	6.9x	6.1x
EV/EBITDA	51.2x	35.7x	24.1x	21.2x
P/E	92.6x	56.3x	38.4x	33.6x

Source: NBRR

## Company Background

Happy Forgings commenced its operations in 1979 primarily as a forging company; they have since evolved into a manufacturer specializing in value added machined products. With over 40 years of experience of manufacturing and supplying quality and complex components, they are well established within the automotive as well as non-automotive industries. In terms of forging capacity as of FY23, they were the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India. Further, they have 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. The company focuses on developing heavier high precision critical and value added products for multiple end-use industries, which typically have extremely closed tolerances. Happy Forgings 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.

### Product Portfolio



The following table sets forth below the revenue from sale of products to automotive and non-automotive sectors for the periods indicated:

(in Rs Cr)

Particulars	H12024		FY2023		FY2022		FY2021	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Auto</b>	247	40%	466	44%	336	43%	205	37%
<b>Non Auto</b>	364	60%	601	56%	450	57%	342	63%
<b>Total</b>	611	100%	1067	100%	786	100%	548	100%

Source: RHP

**Investment Rationale**

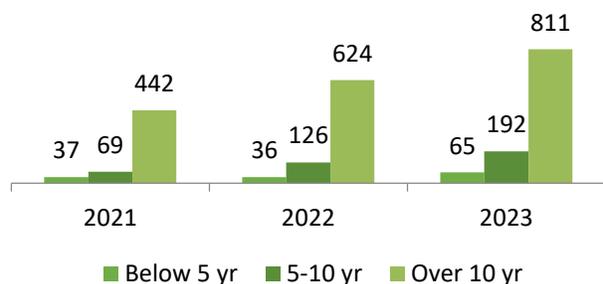
**Global forging and machining market is expected to grow at a CAGR of ~5% each by FY29E**

The global forging and machining markets are estimated to be valued at approximately USD 71.9 billion and USD 52.5 billion, respectively, in 2023 and are expected to grow at a CAGR of 5.1% and 5.2% to reach USD 97.0 billion and USD 71.2 billion, respectively, by 2029. The global crankshaft market for automotive, farm tractors, off-high vehicles and industrial and others, is estimated to be valued at approximately Rs. 34.5 billion in 2023 and is expected to grow at a CAGR of 5.3% to reach Rs. 47.1 billion by 2029. The crankshaft market in India for automotive, farm tractors, off-high vehicles and industrial and others is estimated to be valued at approximately Rs. 5.18 billion in FY24 and is expected to grow at a CAGR of 8.3%, by value, between FY24 and FY29. The demand for advanced crankshafts with high strength and fatigue resistance is increasing due to the growing demand for high-performance vehicles. The company’s engineering capabilities coupled with machining capabilities and advanced technologies that they deploy as part of their manufacturing operations has positioned them to capitalize on the opportunities presented by the growing market.

**Long-standing relationship with customers across industries**

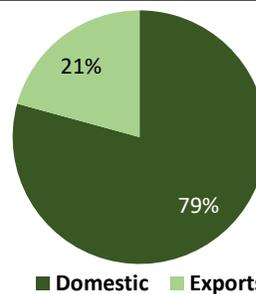
The company is supplier to each of the top five Indian OEMs, by market share, in the MHCV industry and four of the top five Indian OEMs in the farm equipment industry by market share, in FY23. Their long-standing relationships with its customers has positioned them as a trusted supplier for several Indian and global OEMs. Some of its customers are AAM India Manufacturing, Ashok Leyland, Bonfiglioli Transmissions, Dana India, IBCC, International Tractors, JCB India, Liebherr CMCtec, Mahindra & Mahindra, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, SML ISUZU, Swaraj Engines, Same Deutz Fahr, Tata Cummins, Watson & Chalin and Yanmar Engine Manufacturing.

**Growing Revenue From Stable Customer Base**



Source: Company

**Revenue Mix**

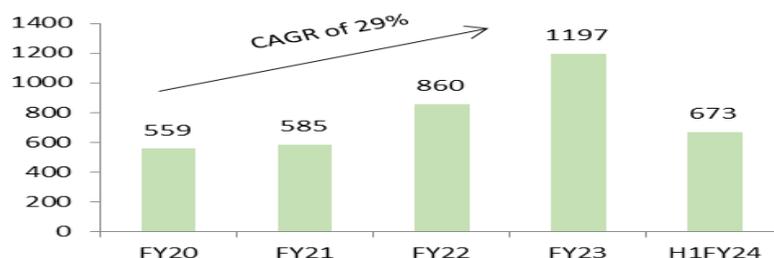


Source: Company

**Strong and consistent financial performance**

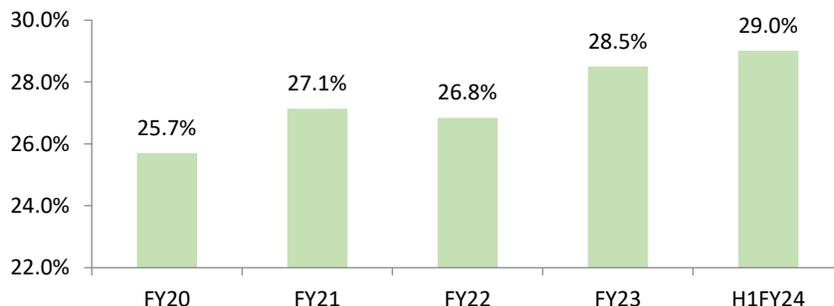
Robust product portfolio and continuous product development by streamlining operational activities has enabled the company to grow at a fast pace.

**Revenue Growth**



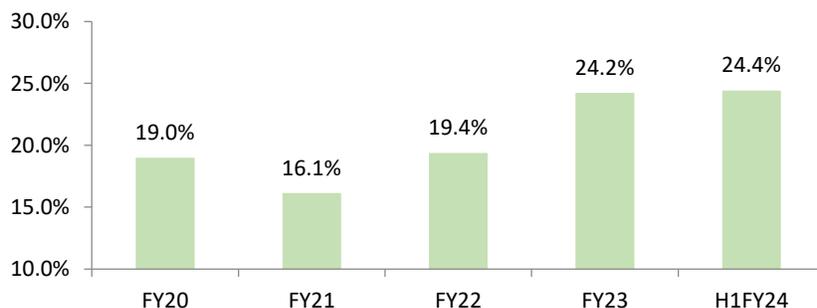
Source: Company

**EBITDA Margin**



Source: Company

**ROCE**



Source: Company

**Key Concern - Business is dependent on the performance of certain industries particularly commercial vehicles, farm equipment and off-highway vehicles. Any adverse changes in the conditions affecting these industries can adversely impact the company**

In the automotive sector, the company primarily caters to domestic and global original equipment manufacturers which manufacture commercial vehicles. In the non-automotive sector, they cater to manufacturers of farm equipment, offhighway vehicles and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries. The company is exposed to fluctuations in the performance of these industries. The company's sales are directly dependent on the production level of these industries domestically and globally, and are affected by inventory levels of manufacturers operating in these industries.

## Valuation and Recommendation

Happy Forgings has differentiated itself by (i) focusing on developing heavier, high precision, critical and value added products; (ii) for multiple end-use industries, which typically have extremely closed tolerances. This has translated to the company commanding substantially higher margins and return ratios compared to peers. The company's valuation at 38.4x FY23 P/E appears attractive compared to peers and thus we recommend to Subscribe to the IPO.

### Listed Comparable Peers

<i>FY23 Figures</i>	MM Forgings	Craftsman Automation	Ramkrishna Forgings	Bharat Forge	Average	Happy Forgings
Revenue	1,462	3,183	3,193	12,910	5,187	1,197
CAGR (FY20-23)	24%	29%	38%	17%	27%	29%
EBITDA Margin	18.7%	21.5%	21.7%	13.5%	18.8%	28.5%
Asset Turns (x)	1.0	1.2	1.2	0.9	1.1	1.0
ROE	21%	20%	21%	7%	17%	21%
ROCE	15%	21%	19%	8%	15%	24%
EV/Sales	1.9	4.0	4.8	4.8	3.9	6.9
EV/EBITDA	9.9	18.6	22.0	35.6	21.5	24.1
P/E	17.4	45.3	49.0	105.5	54.3	38.4

Source: NBRR

## Financials

P&L (Rs. Cr)	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Net Revenue	585	860	1197	673	1346
% Growth	5%	47%	39%	12%	12%
Raw Materials	252	388	551	295	590
% of Revenues	43.0%	45.2%	46.1%	43.8%	43.8%
Employee Cost	49	69	88	54	108
% of Revenues	8.4%	8.0%	7.3%	8.1%	8.1%
Other expenses	126	172	217	128	257
% of Revenues	21.5%	20.0%	18.1%	19.1%	19.1%
<b>EBITDA</b>	<b>159</b>	<b>231</b>	<b>341</b>	<b>195</b>	<b>390</b>
<b>EBITDA Margin</b>	<b>27.1%</b>	<b>26.8%</b>	<b>28.5%</b>	<b>29.0%</b>	<b>29.0%</b>
Depreciation	36	38	54	32	63
Other Income	6	6	6	3	6
Interest	12	7	12	7	14
<b>PBT</b>	<b>117</b>	<b>192</b>	<b>280</b>	<b>159</b>	<b>319</b>
Tax	31	50	71	40	80
Tax rate	26%	26%	25%	25%	25%
<b>PAT</b>	<b>86</b>	<b>142</b>	<b>209</b>	<b>119</b>	<b>239</b>
% Growth	8%	65%	47%	2%	14%
<b>EPS (Post Issue)</b>	<b>9.2</b>	<b>15.1</b>	<b>22.2</b>	<b>12.7</b>	<b>25.3</b>

Return Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
ROE (%)	13%	18%	21%	22%	22%
ROCE (%)	16%	19%	24%	24%	24%

Turnover Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Debtors Days	103	94	94	88	-
Inventory Days	76	78	52	60	-
Creditor Days	24	19	15	16	-
Asset Turnover (x)	0.7	0.8	1.0	1.0	-

Valuation Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Price/Earnings (x)	92.6	56.3	38.4	-	33.6
EV/EBITDA (x)	51.2	35.7	24.1	-	21.2
EV/Sales (x)	13.9	9.6	6.9	-	6.1
Price/BV (x)	2.6	2.2	1.7	-	1.5

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23	H1FY24
Share Capital	9	18	18	18
Reserve & Surplus	636	770	970	1,085
<b>Networth</b>	<b>645</b>	<b>788</b>	<b>988</b>	<b>1,103</b>
<b>Total Loans &amp; Lease Liab.</b>	<b>153</b>	<b>240</b>	<b>219</b>	<b>259</b>
Other non-curr liab.	20	23	23	26
Trade payable	38	44	48	58
Other Current Liab	20	35	49	43
<b>Total Current Liab.</b>	<b>58</b>	<b>79</b>	<b>96</b>	<b>101</b>
<b>Total Equity &amp; Liab.</b>	<b>876</b>	<b>1,130</b>	<b>1,326</b>	<b>1,490</b>
Fixed Assets	455	669	753	800
Inventory	122	184	170	221
Other non Curr. assets	84	35	83	113
Cash	3	0	0	1
Bank Balance	25	1	0	1
Debtors	166	222	308	323
Other Current assets	22	17	11	31
<b>Total Assets</b>	<b>876</b>	<b>1,130</b>	<b>1,326</b>	<b>1,490</b>
Cash Flow (Rs. Cr)	FY21	FY22	FY23	H1FY24
PBT	117	192	280	159
Provisions & Others	49	40	71	38
<b>Op. profit before WC</b>	<b>166</b>	<b>232</b>	<b>351</b>	<b>197</b>
Change in WC	(82)	(109)	(78)	(76)
Less: Tax	34	43	64	40
<b>CF from operations</b>	<b>50</b>	<b>80</b>	<b>209</b>	<b>80</b>
Addition to assets	(92)	(191)	(175)	(101)
Term deposit with banks,	29	23	2	(0)
Interest Received	4	2	0	0
<b>CF from Investing</b>	<b>(59)</b>	<b>(166)</b>	<b>(172)</b>	<b>(101)</b>
Dividend & Lease Rentals	-	-	-	(12)
Proceeds from borrowing	35	89	(25)	40
Interest Paid	(25)	(7)	(12)	(8)
<b>CF from Financing</b>	<b>10</b>	<b>83</b>	<b>(37)</b>	<b>21</b>
<b>Net Change in cash</b>	<b>1</b>	<b>(3)</b>	<b>(0)</b>	<b>1</b>
Cash at beginning	2	3	0	0
Cash at end	3	0	0	1

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