

Auto Ancillary | India

IPO | 18 December 2023

Happy Forging Limited

A trusted supplier for several Indian and Global OEMs



About the Company

Happy Forgings Limited (HFL) with over 40 years of experience is the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India as of FY23 in terms of forgings capacity. HFL 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 and manufacture 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.

Diversified revenue segments with value added products

HFL 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. HFL is a supplier to top five Indian OEMs by market share in MHCV segment and four of the top five Indian OEMs in farm equipment segment by market share in FY23* and has customers with 10+years relationships contributed 75.9% of revenue from sale of products in FY23 and 73.1% in HIFY24.

Strong track record

HFL is the second company in India to have a 14,000 tons or higher forging press as of Mar'23 with an installed capacity of 167,200 MT with a mix of forging and machining capacity and focus on producing margin accretive value-added products with higher realizations as it manufacture heavier and complex products with greater precision and accuracy for a large diversified customer base across Indian and Global clients. HFL strength in machining and ability to forge heavier and complex parts up to 250 kgs to cater to different industries which require heavy and complex parts HFL's significant manufacturing capacities act as an entry barrier for other manufacturers and OEMs that do not have such in-house engineering capabilities and production facilities.

Consistent growth led by newer products and acquisition

HPL will leverage in-house engineering and product development capabilities to grow product portfolio and tap growing business opportunities in the industrial markets, foray into lightweight forging and machining with introduction of aluminum components, Increase wallet share and acquire new business by leveraging existing OEM relationships and adding new customers with a strong focus to grow exports capitalizing the demand from international markets. HPL will continuously explore and consider opportunities that can create synergies and are in line with the company's growth strategies and target entities that expand opportunities in other endmarkets, geographic regions, new customers and new products.

Financials in Brief

HPL has an established a track of consistent revenue growth and profitability with revenues from operations increased from 585 Crs to 1196.5Crs in FY23 at a CAGR of 43% while restated PAT increased from 86.4Crs to 208.7Crs at a CAGR of 55.4% for FY 21-23. HPL strengths in machining and overall value addition to products have enabled us to achieve the highest EBITDA margin among our peers in the last two years. The revenues are diversified in both automotive and non-automotive sectors with CAGR growth of 50.8% and 32.5% respectively for FY21-23.

Our View

HFL has transformed from being a forging led player to a leading manufacturer of machined components in India and consistently grew its product basket with a strong focus on manufacturing margin accretive value-added products to achieve higher margins improving its share. With a high entry barriers business, lengthy customer and product approval process, its in-house design capabilities & fungible production lines have led to a diverse product offering and continuous value addition to its long standing relationships with customers across industries and countries would drive growth for the company. **HFL will continue to grow better than the industry able to diversify its product basket, with a focus on capital efficiency building healthy financial metrics. Therefore we recommend a SUBSCRIBE to the issue.**

IPO Details

Price Band (Rs)	808-850
Face Value (Rs)	2
Issue Open/Closing Date	19-Dec-23/21-Dec-23
Fresh Issues (Crs)	400
OFS (Crs)	609
Total Issue (Crs)	1,009
Minimum Bid Qty. (Nos)	17
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs Crs)*	8,007

*At higher band

Object of the Issue

- ▶ Purchase of equipment, plant, and machinery.
- ▶ Repayment of certain borrowings.
- ▶ General Corporate purposes.

Strengths

- ▶ Fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India.
- ▶ Track record of consistently building capabilities and infrastructure, with focus on capital efficiency.
- ▶ Experienced Promoters, Management Team, and Skilled Workforce.
- ▶ Diversified business model, well placed to take advantage of potential alternative engine technologies.

Key Risk

- ▶ Concentrated manufacturing facilities at one location.
- ▶ Cyclical demand and economic downturn.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	88.2	75.5
Others	11.8	24.5

Key Financials

(Rs Crs)	FY22(12)	FY23(12)	HIFY24(6)
Revenue	860	1,197	600
EBITDA	231	340	182
EBITDA Margin (%)	26.8	28.4	30.3
PAT	143	209	116
PAT Margin (%)	16.6	17.4	19.4
EPS (Rs)	15.9	23.3	13.0*
RocE (%)	19.4	24.2	13.7*
RoE (%)	18.1	21.1	12.9*
Networth	787.6	988.3	1103.3
Total Borrowings	240	219	259

Source: RHP; Note: * not annualised;

Senior Research Analyst:

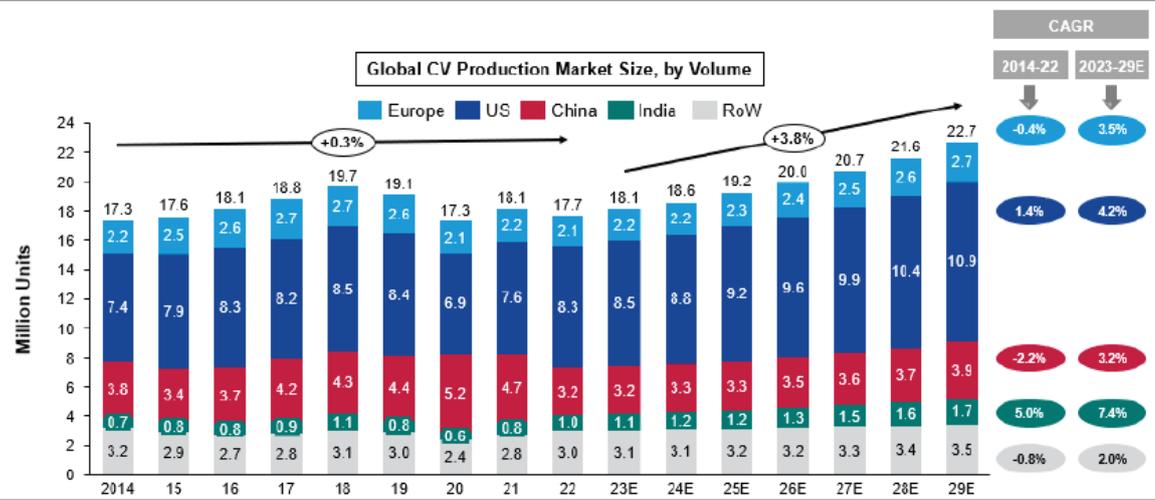
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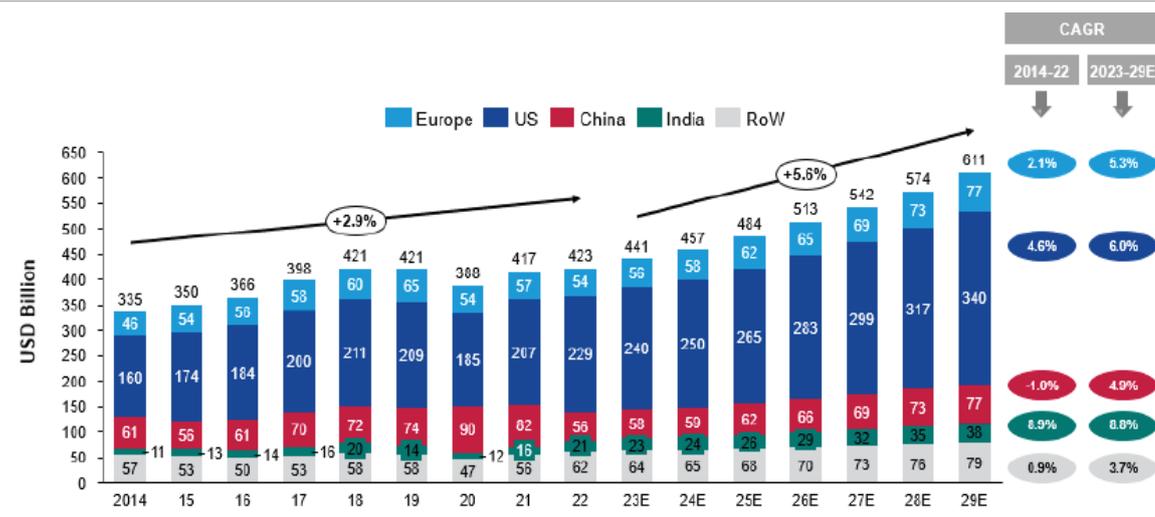
Global Commercial Vehicle Market

Exhibit 1: Global CV Production Market Size, By Volume



Source: RHP, Ricardo Analysis, Public Domain

Exhibit 2: CV Production Market Size, By Value

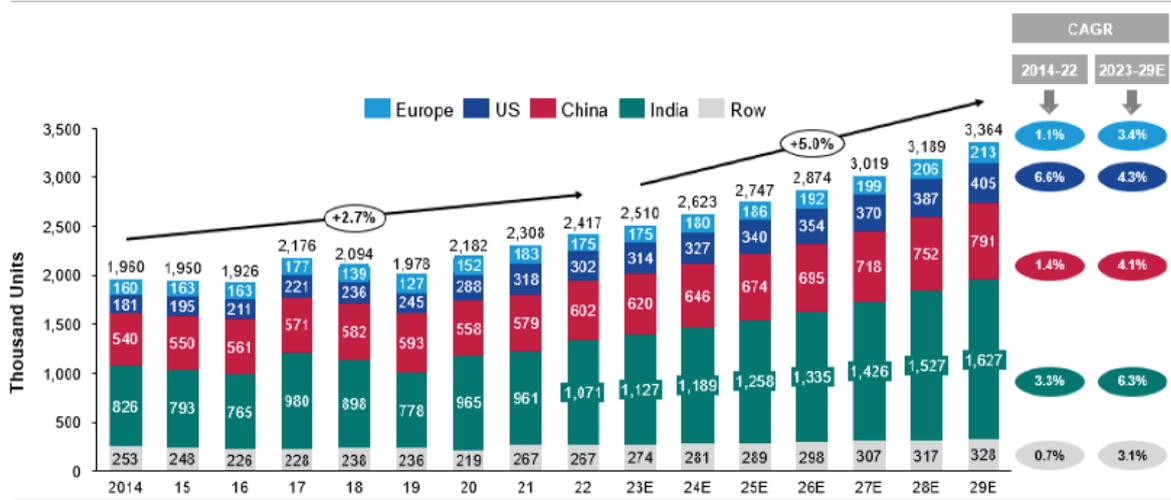


Source: RHP, Ricardo Analysis, Public Domain

Note: E-Estimated; Europe includes Germany, France, Spain, Italy, Turkey, and Sweden. Row includes Japan, Thailand, UK, and Brazil. Market Size for Europe, US, China, and RoW is given as per calendar year and India is given as per financial year (Fiscal 2015 India market size is mentioned in global calendar year 2014)

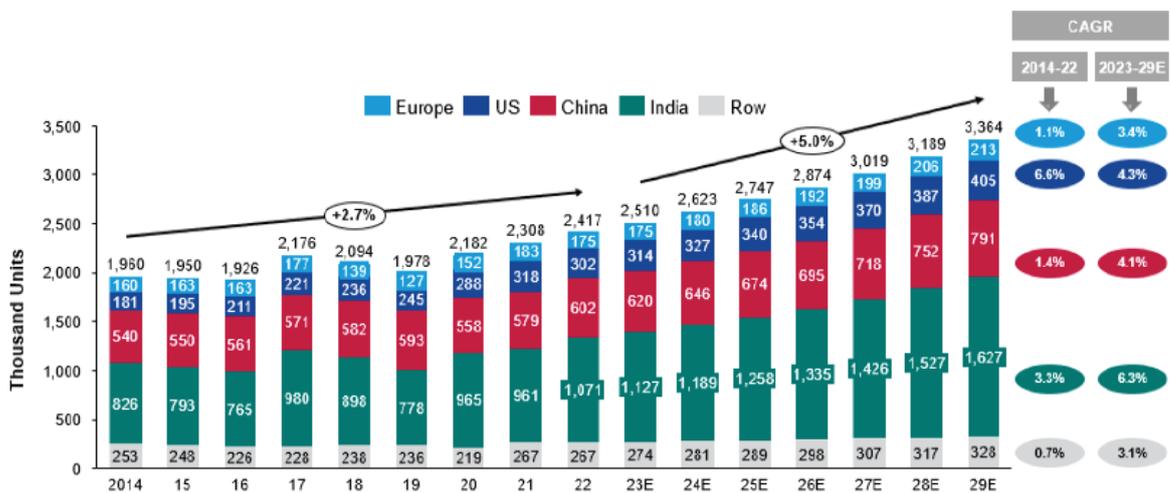
Global Tractors Market

Exhibit 3: Global Tractor Sales Market Size, by Volume



Source: RHP, Ricardo Analysis, Public Domain

Exhibit 4: Global Tractor Sales Market Size, by Volume

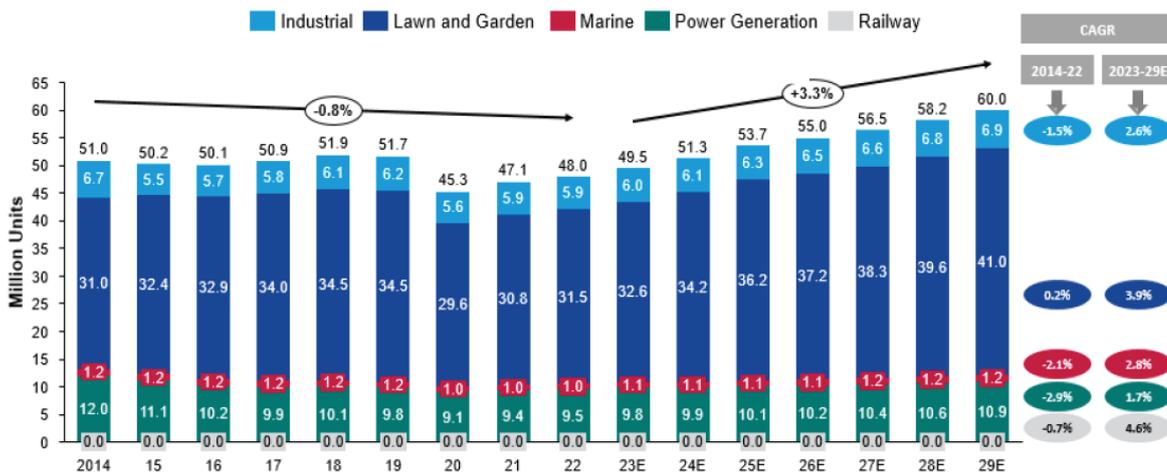


Source: RHP, Ricardo Analysis, Public Domain

Note: - E-Estimated: Europe includes Germany, France, Spain, Italy, Turkey, and Sweden. RoW includes Japan, Thailand, UK and Brazil.

Market Size for Europe, US, China, and RoW is given as per calendar year and India is given as per financial year (Fiscal 2015 India market size is mentioned in Global Calendar Year 2014)

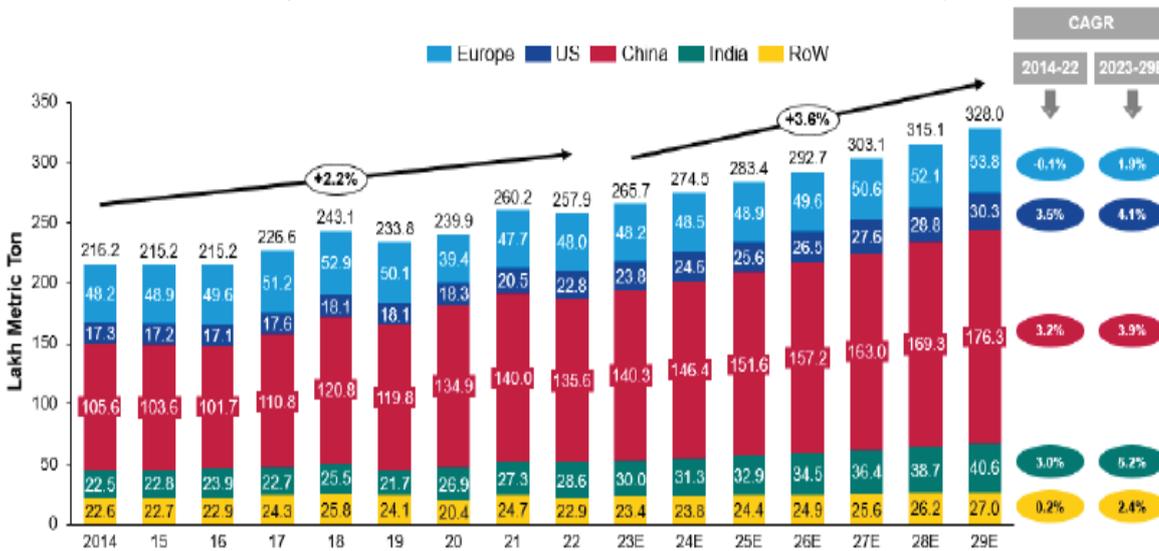
Exhibit 5: Global Industrial and Other Engines Market Size, by Type Volume



Source: Ricardo Analysis, Public Domain

Note: - E-Estimated: Data is given as per Calendar Year; Study includes analysis of following countries: - Europe (Germany, France, Spain, Italy, Turkey, and Sweden), India, US, China and Row (Japan, Thailand, UK and Brazil); Market Sizing includes study of Industrial, lawn and garden, marine, power generation and railway engines.

Exhibit 6: Global Forging Market Size, by Volume (Lakh Metric Ton)



Source: Ricardo Analysis, Public Domain

Exhibit 7: Our Product Portfolio

<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> 

End Use Industries

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

Source: RHP

Exhibit 8: Evolution of our Product Portfolio

	Description of Key Products		Application/ Industry served	Supply Condition	Product Weight
1979	Forged Bicycle Pedals		Bicycle	Forged	450 - 550 gms
1981	Forged Camshafts		Portable Gensets	Forged	2.5 kgs
1996	Forged Bull Gears and Semi Machined Transmission Parts		Farm Equipment	Forged and Rough Machined	Up to 30 kgs
2007 - 2015	Forged Engine and Axle Components and Fully Machined Heavy Range of Crankshafts		Farm Equipment and Commercial Vehicles	Forged and Rough Machined	30 - 80 kgs
2015 - 2019	Fully Machined Products (including Crankshafts)		Farm Equipment, Commercial Vehicles, Industrial	Forged and Fully Machined	Up to 90 kgs
2019 - 2023	Fully Machined Heavy Range of Crankshafts, Pinion Shafts, Planetary Carriers, Valve Bodies		Farm equipment, Commercial Vehicles, Off-Highway, Wind Turbine, Oil and Gas, Power Generation	Fully Machined	Up to 250 kgs

Source: RHP

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