



Harsha Engineers International Limited (HEIL) is the largest manufacturer of precision bearing cages in India with market share of 60%. It is one of the leading global bearing cages market with 6.5% global market share as on CY2021. The company's diverse global presence with cost competitive manufacturing processes helps them to overcome key barriers to entry and ability to cater customers across the globe.

On valuation front, the company is available at 27.73x PE for FY22 on Diluted EPS of INR 11.90 which appears to be attractive as compared to industry peers. On the back of company's strong position in the bearing cages industry along with healthy return ratios, we recommend to subscribe the issue for listing as well as long term.



### About the Company

Incorporated in 2010, Harsha Engineers International Limited (HEIL) is the largest manufacturer of precision bearing cages, in terms of revenue in organised sector in India. 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 of two segments:

1. 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.
2. 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.

As of March 31, 2022, Harsha Engineers International 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 and renewables sectors. In addition, over the past three years company's product development and innovation centre has developed more than 1,200 products in different bearing types. The company has five manufacturing facilities for engineering business with two manufacturing facilities at Changodar and one at Moraiya, near Ahmedabad in Gujarat, India and one manufacturing unit each in Changshu, China and Ghimbav Brasov in Romania. HEIL has three 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 stepdown subsidiary in Romania -Harsha Engineers Europe SRL.

### Issue Details

|   |                          |
|---|--------------------------|
| Price Band (in ₹ per share)   | 314-330                  |
| Issue size (in ₹ Crore)   | 755                      |
| Fresh Issue (in ₹ Crore)  | 455                      |
| Offer for Sale (in ₹ Crore)   | 300                      |
| Total number of shares (lakhs)                                      | 240.53-228.87            |
| Issue open date   | 14-09-2022               |
| Issue close date  | 16-09-2022               |
| Tentative date of Allotment   | 22-09-2022               |
| Tentative date of Listing   | 26-09-2022               |
| Offer Allocation  | QIB - 50 %, Retail- 35%, |
| No. of shares for QIBs  | 119.82-114.02            |
| No. of shares for non-institutional investors (lakhs)               | 35.95-34.20              |
| No. of shares for retail  | 83.88-79.81              |
| Minimum order quantity  | 45                       |
| No. of shares for Eligible  | 0.88-0.84                |
| Employee Discount (in ₹)  | 31                       |
| Face value (in ₹)   | 10                       |
| Amount for retail investors   | 14130-14850              |
| Maximum number of shares for Retail investors at lower Band         | 585(13)                  |
| Maximum number of shares for Retail investors at upper band         | 630(14)                  |
| Maximum amount for retail investors at lower Band-upper band (in ₹) | 197820-193050            |
| Exchanges to be listed on   | BSE, NSE                 |

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### Promoters

- Rajendra Shah, Harish Rangwala, Vishal Rangwala, and Pilak Shah

**Objective of the Offer**

- Pre-payment or scheduled repayment of a portion of the existing borrowing up to INR 270 crore
- Funding capital expenditure requirements towards purchase of machinery up to INR 77.95 crore
- Infrastructure repairs and renovation of existing production facilities including office premises in India up to 7.12 crore
- Offer for Sale by Promoters aggregating up to INR 300 crore
- General corporate purposes

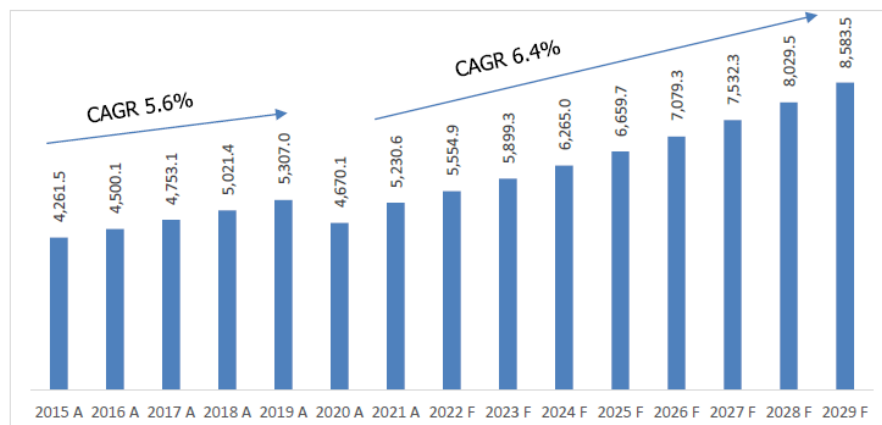
**Brief Financials**

| Particulars (Rs. Cr) *  | FY22    | FY21   | FY20   |
|-------------------------|---------|--------|--------|
| Share Capital           | 77.25   | 50.00  | 50.00  |
| Net Worth               | 527.90  | 433.22 | 378.02 |
| Revenue from Operations | 1321.48 | 873.75 | 885.85 |
| EBITDA as stated        | 186.58  | 124.96 | 100.06 |
| EBITDA Margin (%)       | 14.12%  | 14.30% | 11.30% |
| PAT                     | 91.94   | 45.44  | 21.91  |
| PAT Margin (%)          | 6.96%   | 5.20%  | 2.47%  |
| Basic EPS(Rs)           | 16.06   | 9.09   | 6.26   |
| Diluted EPS(Rs)         | 11.90   | 5.88   | 3.52   |
| Net Asset Value (Rs)    | 68.34   | 86.64  | 75.6   |
| P/E #                   | 27.73   | -      | -      |
| P/B #                   | 4.83    | -      | -      |

Source: RHP, \*Restated Consolidated, FV Rs.10/-, # Calculated at the upper price, PE calculated on Diluted EPS

**Industry Review****Size of the global bearing cages market**

The global bearing cages is estimated at about 5% of the global bearings market. The global bearing cages market was valued at USD 4,261.5 million grew at a CAGR of 5.6% between 2015 and 2019. The pandemic situation and geopolitical tensions led to contraction in demand for bearing cages and manufacturers faced supply chain constraints owing to restrictions. This led to contraction in global bearing cages market. However, there was a rebound in 2021 and growth was driven by the usage of bearings in several applications such as mining, automotive, heavy machinery, infrastructure development, power generation and construction. The bearing cages market is expected to grow at a CAGR of 6% to 8% over the period 2021 to 2029 and is estimated to be valued at USD 8,583.5 million in the year 2029.

**Global Bearings Cages Market Size in USD Mn**

Note: Market size is based on revenues; A – Actual, F – Forecast

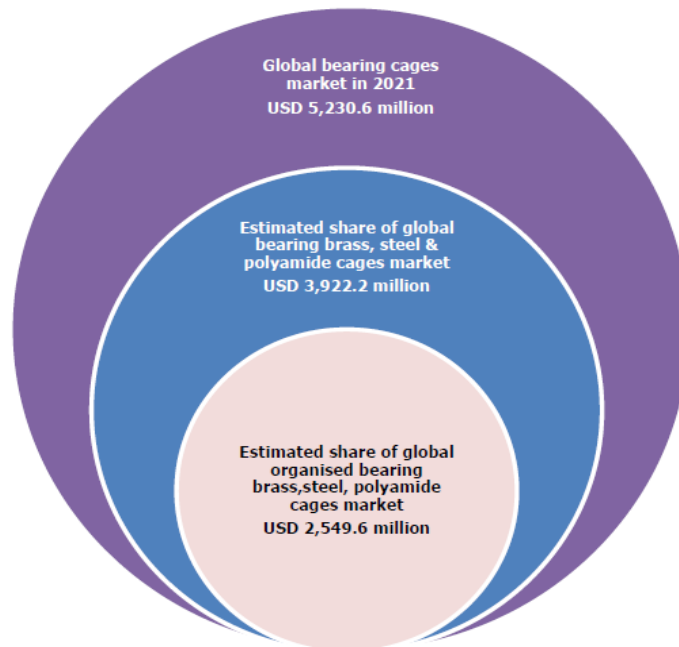
Source: Stampings Market – Global Insights, Growth, Size, Comparative Analysis, Trends and Forecasts, 2021-2029 by Research N Reports

Source: RHP, CBSL



## Industry Review

The world bearing cage market is estimated at USD 5,230.6 million in 2021 as shown in the figure below. Brass, Steel and Polyamide cages form the majority share of the cages segment constituting an estimated 75% of the market. 60% of this market is estimated to be organized



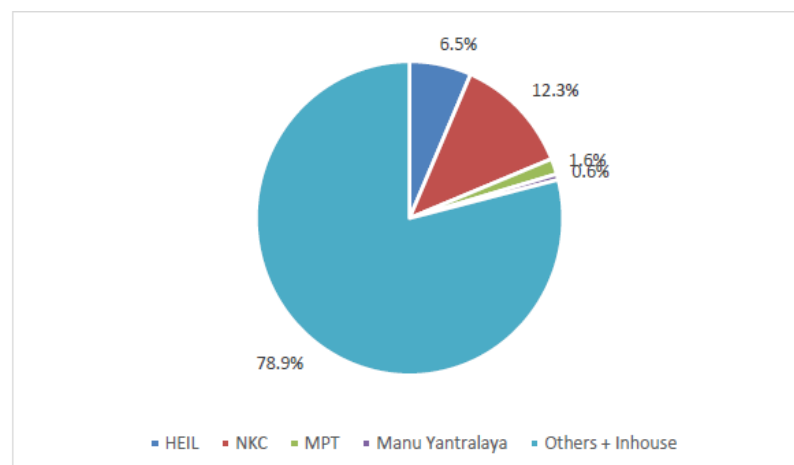
*Notes:*  
Bearing cages is estimated as 5% of bearings market  
The share of brass, steel and polyamide cages is estimated at 75%  
The share of organized bearing cages market is estimated at 65%.  
Source: CareEdge Research

Source: RHP, CBSL

### Key players and market share

The global bearing cage market is quite fragmented with presence of global and regional players. Some of the key players operating in the global bearing cages market are Nakanishi Metal Works Co Ltd (NKC; Japan), Harsha Engineers International Ltd (HEIL, India), MPT Präzisionsteile GmbH Mittweida (MPT Group GmbH, Germany) and Manu Yantralaya Pvt Ltd (MYPT, India). The share of some of the key players operating in the global organized bearing (brass, steel and polyamide) cages market is stated in the chart below. This includes outsourced players in bearing cages market. Meanwhile, the global bearing cages segment also has a significant share of inhouse-production by key bearing manufacturers which is reflected in the remaining 78.7% of the share in the chart below.

### Market share of key players in global organized bearing (brass, steel & polyamide) cages market (USD 2,549.6 million)



Source: RHP, CBSL

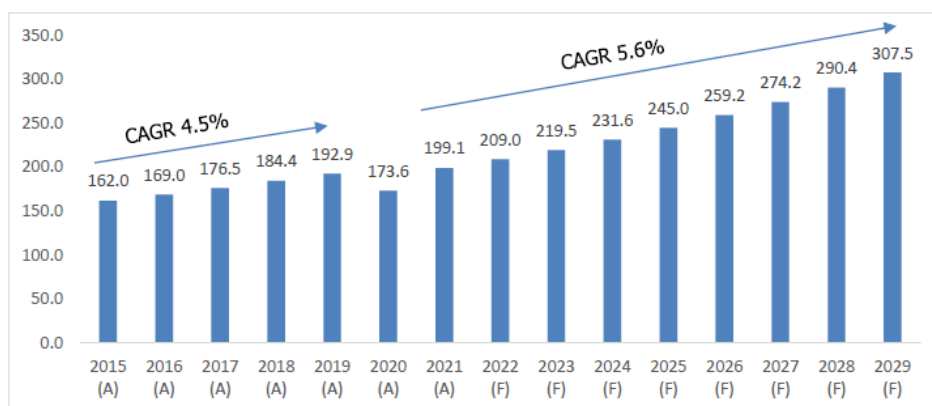


## Industry Review

### Size of the global stamping market

The global stampings market grew at 4.5% CAGR between 2015 to 2019 and was valued at USD 192.9 billion in the year 2019. In the year 2020, the global stampings market de grew by 10% and slipped to 173.6 billion due to Covid-19 impact. In coming years, the stampings market is projected to grow at a CAGR of 5.6% between 2021 and 2029 and is expected to be worth USD 307.5 billion by 2029. Due to Covid -19 the year 2020 registered a decline in the global market however, the stampings market is expected to rebound and grow at a 5.6% CAGR in future. This reboundis mainly on account of growth in the sectors related to stampings that are expected to perform better because of pent up demand in the past years.

Global Stamping Market Value in USD Mn



Note: Market size is based on revenues; A – Actual, F – Forecast

Source: Stampings Market – Global Insights, Growth, Size, Comparative Analysis, Trends and Forecasts, 2021-2029 by Research N Reports

Source: RHP, CBSL

## Competitive Strengths

**Comprehensive solution provider offering 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 organised outsourced bearing (brass, steel & polyamide) cages market in CY 2021.

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, renewables sectors.

### Long standing relationships with leading clientele

HEIL has established strong relationship with their 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.

As of March 31, 2022, HEIL supply to each of the Top-6 global bearing manufacturers. Their Top-10 customers contributed to 44.70%, 48.24%, and 47.79% of their 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.



## Competitive Strengths

### Strategically located domestic and international production facilities and warehouses

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. Their presence in these strategic locations helps them to 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 are 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.

## Risk Factors

### Dependency on a limited number of customer groups for a significant portion of revenue from engineering business

HEIL has derived a significant portion of revenue from engineering business from a limited number of customer groups. Furthermore, the company do not have firm commitment in the form of long-term supply agreements with customer groups and instead rely on purchase orders and long-term & short term framework agreements to govern the volume and other terms of sales of products. As per consolidated financial statements, contributed to revenue from operations from engineering business ₹ 9,323.39 million, ₹ 6,315.65 million and ₹ 6,426.31 million for FY22, FY21 and FY20, respectively, and constituted 70.55%, 72.28%, and 72.54% of revenue. The loss of any of the major customer group may adversely affect the company's business, financial condition, results of operations, cash flow and future prospects.

### Dependency on foreign currency exchange rate fluctuations

HEIL faces foreign exchange rate risk to the extent that revenue, expenses, assets or liabilities are denominated in a currency other than the Indian Rupee. The company reports consolidated results of operations in Indian Rupees, while its subsidiaries report their financial results in their respective local currencies. For FY22, FY21 and FY20, 63.02%, 65.30% and 62.68% of total revenue from operations and 33.15%, 36.16%, and 34.65% of total expenses, as per Restated Consolidated Financial Statements, were denominated in foreign currencies, respectively. Based on geographical presence and business operations worldwide, HEIL primarily deals in USD, Euro, RMB, JPY and RON. The company partly hedges the currency by entering into forward exchange contracts and premium paid long term options contracts to mitigate the currency fluctuations.

### HEIL depends on third parties for the supply of raw material and delivery of products

HEIL is dependent on third party suppliers for the raw materials used in the manufacture of products. The company purchases most of the raw materials used in manufacturing process from a limited number of third-party suppliers. Its top five raw material suppliers for FY22 together contributed to 43.93% of total raw material consumption (as adjusted for changes in inventories of finished goods and work in progress) during such period. There is risk of supply shortage if there is disruption in supply-chain and it would not able to source similar kind of required commodities on similar commercial terms and within a reasonable timeframe.



## Peer Comparison

| Name of the company            | Face Value | Total Income (INR crore) | Basic EPS | NAV    | P/E*  | P/B*  | ROE (%) | ROCE(%) |
|--------------------------------|------------|--------------------------|-----------|--------|-------|-------|---------|---------|
| Harsha Engineers International | 10         | 1,339.00                 | 16.06     | 63.34  | 27.73 | 5.21  | 17.42   | 24.92   |
| Listed Peers                   |            |                          |           |        |       |       |         |         |
| Timken India                   | 10         | 2,217.53                 | 43.49     | 20.28  | 77.44 | 15.29 | 21.80   | 28.77   |
| SKF India                      | 10         | 3,700.29                 | 79.90     | 81.43  | 62.25 | 13.04 | 22.91   | 30.91   |
| Rolex Rings                    | 10         | 1,028.13                 | 50.23     | 200.05 | 39.20 | 9.84  | 29.26   | 31.27   |
| Sundaram Fasteners             | 1          | 4,941.40                 | 21.74     | 124.75 | 40.43 | 7.05  | 18.59   | 20.29   |

\*P/E & P/B ratio based on closing market price as on Sep 9th, 2022, at the upper price band of IPO, financial details consolidated audited results as on FY22

## Our Views

Harsha Engineers International Limited (HEIL) is the largest manufacturer of precision bearing cages in India with market share of 60%. It is one of the leading global bearing cages market with 6.5% global market share as on CY2021. The company's diverse global presence with cost competitive manufacturing processes helps them to overcome key barriers to entry and ability to cater customers across the globe. HEIL earned more than 63% of the total revenue from Exports as on FY22. The company's ROE and ROCE stood at 19.13% and 24.92% as on FY22 respectively. Its D/E stood at 0.73x as on March 2022, post IPO the company's D/E would be 0.20x.

On valuation front, the company is available at 27.73x PE for FY22 on Diluted EPS of INR 11.90 which appears to be attractive as compared to industry peers. On the back of company's strong position in the bearing cages industry along with healthy return ratios, we recommend to subscribe the issue for listing as well as long term.

**Sources:** Company Website and red herring prospectus





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