



IPO Report

12th Sept' 22

Snapshot

Harsha Engineers 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. Company offer diversified suite of precision engineering products across geographies and end-user industries. Company's business comprises: (i) engineering business, under which it manufacture 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 company provide complete comprehensive turnkey solutions to all solar photovoltaic requirements.

VALUATION

Company is bringing the issue at price band of Rs 314-330 per share at p/e multiple of 33x on post issue FY22 PAT basis. Company being comprehensive solution provider offering diversified suite of precision engineering products across geographies and end-user industries has long standing relationships with leading clientele. Company's strategically located domestic and international production facilities and warehouses & expertise in tooling, design development and automation with consistent track record of growth and financial performance is looking strong to us. Hence . looking after all above ,we recommend "Subscribe" on issue.

Price Band (Rs./Share)	314-330
Opening date of the issue	14th Sep 2022
Closing Date of the issue	16th Sep 2022
No of shares pre issue	Eq Shares
Issue Size	Rs 755 Cr
Offer For Sale	Rs 300 Cr
Fresh Issue	Rs 455 Cr
Face Value (Rs/ share)	10
Bid Lot	45
Employee Discount	Rs 31/share

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 11401470 Eq Shares)
Non-Institutional	15% of the offer (Approx 3420450 Eq Shares)
Retail	35 % of the offer (Approx 7981065 Eq Shares)
Employee	83610 Eq Shares
Lead managers	Axis Capital, Equirus Capital, JM Financial
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

Consistent track record of growth and financial performance

Company's focus on operational and functional excellence has contributed to its track record of healthy financial performance. Company have low leverage, with a net debt-to-equity ratio of 0.68 as of March 31, 2022. For Fiscal 2022, 2021 and 2020, company achieved an EBITDA margin of 14.12%, 14.30%, and 11.29% , respectively, as per Restated Consolidated Financial Statements. Company's RoAE was 19.13%, 11.20%, and 6.10% respectively for Fiscal 2022, 2021 and 2020, and RoACE was 24.92%, 17.24 % , and 18.05% and respectively, as per Restated Consolidated Financial Statements.

Long standing relationships with leading clientele

Company have 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 six global bearing manufacturers contributing to 54% of the market share in Fiscal 2022 .As of March 31, 2022, company supply to each of the top six global bearing manufacturers.

Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end user industries

Within its diversified product portfolio, company manufacture bearing cages ,complex and specialised precision stamped components, welded assemblies and brass castings and bushings. Since incorporation, company have manufactured more than 7,500 types of products in the automotive and industrial segments. Company 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.Company have approximately 50-60% of the market share in the organised segment of the Indian bearing cages market .



COMPANY BACKGROUND

Harsha Engineers is a technology driven company with a strong focus on quality, design and tool development, which has allowed company to develop products suited to its customers' requirements. Company have the expertise to design and develop advance tooling in-house which enables 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. Company, which housed a team of 253 qualified engineers (including solar EPC business) as of March 31, 2022, along with decades of experience in bearing cages engineering, enable company to develop specialized products and solutions. As of March 31, 2022, company 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 company to meet changing customer requirements. 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. Company have four strategically located manufacturing facilities for its engineering business with one of its 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. Company's presence in these strategic locations helps to penetrate global markets more efficiently and in a cost effective manner and allow access to its customers. Company supply products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa.

Company have 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. While the automotive segment is shifting towards the electric vehicles, its impact will be limited as company is not manufacturing needle bearings cages which are engine components. Needle cages bearing used in engines and small cage bearing used in two and three wheelers are likely to be the most impacted type of bearings due to increasing penetration of electric vehicles. Further, the electrification of vehicles will increase the precision requirements sought by customers which will help company to further improve their market share in the sector.

Harsha Engineers is part of the Harsha Group which was established in 1986 and has over 35 years of operating history in the engineering business. Harsha Engineers International Limited, was incorporated in 2010 as Harsha Abakus Solar Private Limited. In order to consolidate the Harsha Group's India engineering and solar EPC business, and to get the benefits of synergies, a corporate reorganisation was recently completed effective from the appointed date of April 01, 2020. Pursuant to the Corporate Reorganisation, the engineering business of the Harsha Group housed in Aastha Tools Private Limited, Harsha Engineers India (Private) Limited and Harsha Engineers Limited was amalgamated into company

Company is also an EPC service provider in the solar photovoltaic industry and also provides operations and maintenance services in the solar sector. Company have over 10 years of operating history in the solar EPC business. Company have an in-house design, engineering, procurement, project management and O&M team which has a combined experience of installing at least 500 MW and more than 60 MW commissioning experience in roof top segment as of March 31, 2022.

Company have 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. Company also has a 50% interest, as a partner, in Clenmax Harsha Solar LLP and 26% equity interest in Sunstream Green Energy One Private Limited (formerly known as Eirene Naval Systems Private Limited).



INVESTMENT RATIONALE

Strategically located domestic and international production facilities and warehouses

Company have four strategically located manufacturing facilities spread across three countries in India, China, and Romania. As on March 31, 2022, company's aggregate installed capacity across these manufacturing facilities was 4,596 metric tonne per annum for castings and 1,097.87 million pieces per annum for bearing cages. Company's presence in these locations helps to overcome significant entry barriers in comparison with its competitors, allowing it to penetrate these markets more efficiently and becoming a local supplier to leading key global bearing players. Company's presence in these strategic locations help company penetrate global markets more efficiently and in a cost effective manner. It also gives company the ability to cater to the needs of company's customers from multiple locations, at times designing products at one location while manufacturing them at another. Company dual-shore capabilities, which is company's ability to carry out design, engineering and manufacturing of products at different locations allow company to service customer requirements from alternate locations, giving the customer the benefit of regular supply and cost-competitive manufacturing operations. Additionally, to help meet just in time requirements of company's customers, company have entered arrangements to stock inventory in warehouses over 20 locations across the world. Having proximity to key customer groups gives company a strategic advantage in ensuring greater cost effectiveness, quicker delivery and faster turn- around times, allowing company to maximize customer satisfaction in a timely manner. Company's multinational presence has also allowed company to diversify its revenue geographically and enhanced company's reputation which results in higher orders from India.

Expertise in Tooling, design development and automation

Company's decades of experience in precision engineering, expertise in area of tooling, strategically located production facilities, focus on design and tooling, coupled with technologically advanced and cost competitive manufacturing technology processes has enabled company to meet company's customers' bespoke and stringent requirements. Company have 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 company's global customers. Company employ machining as well as stamping processes in its manufacturing process.

Strong, experienced and dedicated senior management team and qualified workforce

Company's senior management team comprising of its Promoters are qualified engineers and have extensive experience and knowhow in engineering sector, including, business development, operations, administration, marketing and human resource management. Company leverage the understanding and the experience of its senior management in successfully managing its operations and growth. Company's founder Promoters and Directors Harish Rangwala and Rajendra Shah have been in this business since 1986. Their leadership and vision have helped company become one of the leading manufacturers of bearing cages. Company also benefit significantly from the qualified and experienced second generation management team comprising of Vishal Rangwala and Pilak Shah, who have an entrepreneurial vision and the technical capability to further expand company's business and operations. Company's management team also includes a strong and experienced team of cross functional professionals across senior and mid-level management. In addition, company have a dedicated team of engineers along with other skilled and technically qualified workforce. Company continuously strengthen its engineering expertise by providing in-house training to its workforce, in order to diversify and update their skill sets and keep them updated with the latest changes in manufacturing technologies and processes.



OBJECTS OF OFFER

Offer for Sale:

Company will not receive any proceeds from the Offer for Sale by the Selling Shareholders and the proceeds received from the Offer for Sale

Fresh Issue:

Company proposes to utilise the Net Proceeds of the Fresh Issue towards funding of the following objects:

- (a) Pre-payment or scheduled repayment of a portion of the existing borrowing availed by company;
- (b) Funding capital expenditure requirements towards purchase of machinery;
- (c) Infrastructure repairs and renovation of company's existing production facilities including office premises in India; and
- (d) General corporate purposes.

RISKS

Company depend on a limited number of customer groups for a significant portion of its revenue from engineering business. The loss of any of its major customer groups due to any adverse development or significant reduction in business from company's major customer groups may adversely affect company's business, financial condition, results of operations, cash flow and future prospects.

Source:RHP

INDUSTRY OVERVIEW

Indian Bearing cages market

In terms of revenue, bearing cages market in India accounted for a share of about 5% in the global bearings market in 2021. Further, within Asia Pacific region, the revenues for bearings market in India accounted for a share of 12.5% of the Asia Pacific region's revenues. The Indian bearing cages market stood at USD 186.5 million in 2015 and grew at a CAGR of 7.2% during 2015 to 2019. The Indian bearing cages market contracted owing to the global outbreak of Covid-19 and geopolitical tensions that led to decline in demand from end user industries of bearing cages and manufacturers witnessed supply chain constraints. However, going forward, with resumption of economic activities, the Indian bearing cages market is expected to grow at the highest CAGR of 8.3% amongst the countries within the Asia Pacific region during 2021 to 2029 and is estimated to be valued at USD 516 million in 2029.

Growth Drivers

- Favorable policy and regulatory framework • Growing demand from end users
- Manufacturers diversifying global supply chain network Apart from the demand drivers mentioned above, other key enablers like advancements in technology with digitization, Internet of Things (IOT) will drive the demand for bearings components including cages going forward. Moreover, the bearing component manufacturers are continuously working to develop customized bearings as per end user requirements which is likely to benefit the bearing cages manufacturers as well.

Challenges

- Volatile prices of raw materials
- Increasing EV penetration


Consolidated Financials
(Rs in Mn)

Financials	FY20	FY21	FY22
Total Revenue (A)	8858.53	8737.54	13214.81
Total Expenditure (B)	7998.73	7519.10	11524.65
EBIDTA	859.80	1218.44	1690.16
EBIDTA Margin	9.71	13.94	12.79
Other Income	136.52	29.80	175.18
Depreciation	352.44	341.09	353.56
EBIT	643.88	907.15	1511.78
Interest	328.03	299.93	245.59
PBT	315.85	607.22	1266.19
Tax	96.76	152.83	346.75
PAT	219.09	454.39	919.44
NPM	2.47	5.20	6.96
ROE %	5.89	10.64	17.62
EPS	4.38	9.09	11.90
Eq Cap	500.00	500.00	772.48
Net Worth	3719.8	4271.77	5218.6

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	P/E	EPS	RONW %	NAV /Sh
<i>Harsha Engineers Interntional Ltd</i>	<i>13389.99</i>	<i>--</i>	<i>11.90</i>	<i>17.42</i>	<i>68.31</i>
Rolex Rings	10281.29	36.04	48.83	24.21	200.05
SKF India	37002.90	59.21	79.90	20.95	381.43
Sundaram Fasteners Ltd	49414.00	39.38	21.74	17.42	124.75
Timken India Ltd	22175.33	69.30	43.49	19.74	220.28

(Source: RHP)



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