

Harsha Engineers International Ltd

Subscribe for Listing Gains

Price Band: INR 314-330

ISSUE SUMMARY

Issue Opens	14-Sep-22
Issue Closes	16-Sep-22
Offer Price (INR per share)	314-330
Bid Lot	45 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	77.2
^Offer for Sale (No of sh. mn)	9.1
^*Fresh Issue (No of sh. mn)	13.8
^Post Issue shares o/s (mn)	91.0
Issue Size (INR mn)	7,550.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%
^ Issue Size (@INR330)	
*Incl. employee reservation portion of INR25mn; Discount of INR31/sh	

POST ISSUE DETAILS

M.Cap @INR330/sh. (INR bn)	30.1
Shareholding pattern	
Promoters	74.6%
Non-Promoters	25.4%

Largest manufacturer of precision bearing cage: Harsha Engineers International Ltd (HEIL) is the largest manufacturer of precision bearing cages in India (brass/steel/polyamide) with 50-60% market share in the organized market. It is also one of the leading players globally with market share of 6.5% for brass, steel and polyamide cages in CY21 (forming 75% of global bearing cage requirement). It caters to each of the top six global bearing companies and derives 75% revenue from this segment.

Steady growth expected for Bearing cage market: Bearing cage has wide usage across fast growing end user industries viz. Auto, Aviation, Railways, Construction, Mining, Electronics, Agriculture. Global/ domestic industry is expected to grow at 6.4%/8.3% CAGR over CY21-29E, with increasing outsourcing by bearing companies. HEIL, manufacturing upto 2000mm diameter cages, has expanded into large diameter brass/steel cages, which is largely manufactured in-house by bearing companies.

Diversification into specialized precision components to drive growth: HEIL has recently diversified into production of bronze bushings, sand casting and specialized stamped components to cater to end-user industries like wind, mining and shipping. It plans to scale up this low volume, high value segment over next 3-5 years.

Financials: HEIL's revenue grew by 51% in FY22 (though flat in FY21) as many new orders won over FY20-21 started reflecting in FY22. Revenue/ EBITDA/PAT grew at 22%/40%/105% CAGR over FY20-22. EBITDA margin expanded to 13.9% in FY21, led by high value and margin accretive orders but dropped to 12.8% in FY22 led by raw material inflation. Return ratios have improved with RoE/RoCE expanding to 13.1%/11.7% (post dilution).

Issue Size: INR7.6bn IPO consists of fresh issue of INR4.6bn and OFS of INR3bn by promoters, which would result in latter's stake reducing to 74.6% post-IPO. The market cap post listing would stand at INR30.1bn. Funds raised would be used to repay INR2.7bn debt, fund INR0.8bn capex while balance would be utilized towards general corporate purpose.

Valuation & View: HEIL with its dominant position is well placed to capture the growing bearing cage demand across industries. We like its increasing focus on other specialized precision components and on the growing EV segment which could boost its EBITDA margins. It is valued at 32.7x FY22 P/E which is at par with its listed peers. Given growth recovery in auto/auto ancillary and strong momentum in the midcaps, we expect the IPO to do well. We suggest investors to **Subscribe for listing gains**.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY20	FY21	FY22
Revenue	8,859	8,738	13,215
Growth (%)	-	-1.4	51.2
Adj PAT	219	454	919
Growth (%)	-	107.4	102.3
EPS (INR)	2.4	5.0	10.1
RoE (%)	5.9	11.4	13.1
P/E (x)	137.1	66.1	32.7

*Calculated at the upper price band of INR330; Source: RHP, MOFSL

Peer Comparison

Exhibit 2: Peer Comparison

Company	M.Cap. INR Bn	Rev. CAGR FY20-22 (%)	EBITDA	EBITDA M FY22 (%)	EV/EBITDA FY22 (x)	EV/Esales FY22 (x)	P/E FY22 (x)	D/E FY22 (x)
			CAGR FY20-22 (%)					
Timken	253	16.7	40.8	23.2	31.4	7.3	49.2	0.0
SKF India	246	13.6	26.2	15.2	30.8	4.7	44.2	0.0
Sundram Fasteners	185	14.7	16.3	16.4	24.5	4.1	41.4	0.3
Rolex Ring	54	23.6	37.3	22.5	22.0	5.5	35.6	0.4
Harsha Engg.	30	22.1	40.2	12.8	16.5	2.2	32.7	-

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 12th Sep, 2022

^Calculated at upper price band of INR330

About the Company

Harsha Engineers International Ltd (HEIL), incorporated 2010, is the largest manufacturer of precision bearing cages, in terms of revenue, in organized sector in India, and amongst the leading manufacturers of precision bearing cages in the world (Source: CARE Advisory Report). It has ~50-60% of the market share in the organized segment of the Indian bearing cages market and 6.5% of the market share in the global organized bearing cages market for brass, steel and polyamide cages in CY2021.

Exhibit 3: Global Bearing Market to grow at 6% CAGR

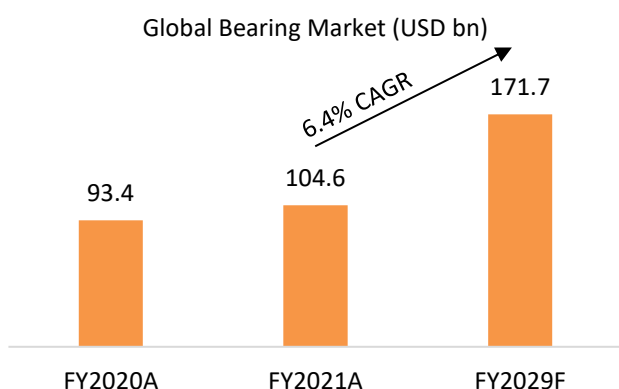
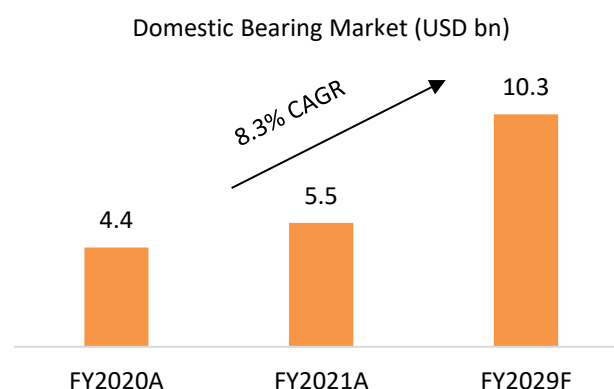


Exhibit 4: India's Bearing Market to grow at 8% CAGR



Source: RHP, MOFSL

HEIL offers a wide range of bearing cages starting from 20 mm to 2,000 mm in diameter and it find its application in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors etc. Its business comprises:

- (i) engineering business
 - bearing cages (in brass, steel and polyamide materials)
 - complex and specialized precision stamped components,

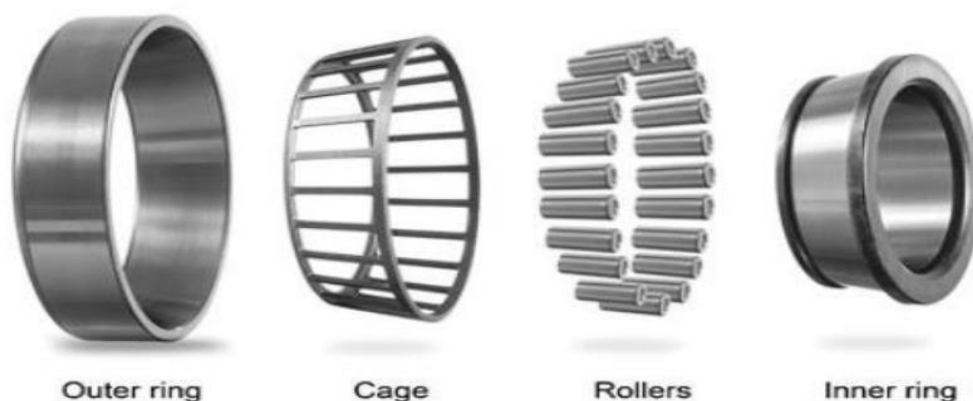
- welded assemblies and brass castings and
 - cages & bronze bushings
- (ii) solar EPC business

Exhibit 5: Bearing market opportunity across end-user industries (USD bn)

Segment/ Market Size	2022F	2029F	% Share 2021	CAGR %
Automotive	24.8	37.0	22.5	5.8
Aviation & Aero	21.9	34.0	19.7	6.5
Railways	19.5	30.9	17.6	6.7
Construction	15.2	24.2	13.6	6.8
Mining	12.3	19.3	11.1	6.6
Electronics	10.0	15.5	9.0	6.5
Agriculture	6.2	9.5	5.6	6.3

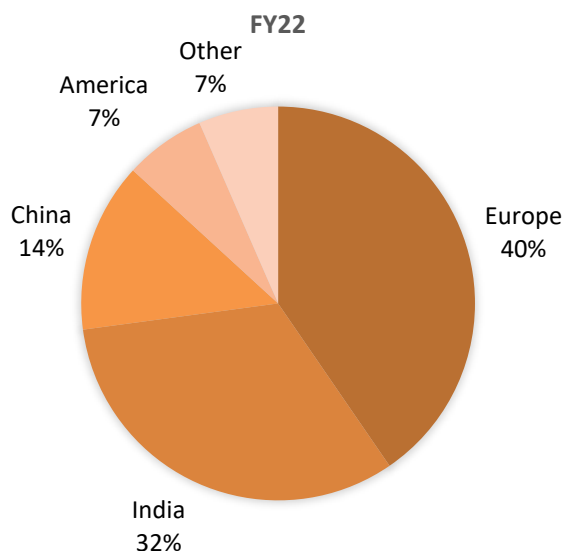
Source: RHP, MOFSL

HEIL has the expertise to design and develop advance tooling in-house which enables it to manufacture precision bearing cages and complex and specialized precision stamped components. Bearing cages are critical parts of a bearings and it requires high precision technology to manufacture them. Given the critical function of a bearing cage, and the resultant quality requirements, global bearing companies have steadily increased outsourcing for manufacturing of bearing cages and the business from these bearing companies has gotten concentrated to a few bearing cage manufacturers.

Exhibit 6: Manufactures precision bearing cage – one of the 4 key components of bearing*Source: RHP, MOFS*

HEIL's ability to develop products suited to its customers' requirements has fostered strong and long term customer relationship which in turn has helped the company gain higher margins for its products and better navigate competition. Further the penetration of EV will increase the precision requirements sought by customers which will help HEIL to further improve its market share in the sector.

Exhibit 7: Exports engineering products to 25 countries



Source: RHP, MOFS

HEIL has been successful in diversifying its product portfolio and improve current processes in different types of bearing cages mainly due to its design, development and technological capabilities. As of March 31, 2022, it manufactured more than 7,205 bearing cages and more than 295 other products. In addition, over the past three years, it has developed more than 1,200 products in different bearing types.

Exhibit 8: Manufactured 7500+ diversified products till date

Different designs of bearing cages with diverse applications						
						
Taper Roller	Deep Groove	Angular Contact Ball	Thrust Roller	Spherical Roller	Cylindrical Roller	Sand Casting
✓ Railways ✓ Industrial machines ✓ Pumps ✓ Compressors ✓ OEMs ✓ Engine applications	✓ Crushers ✓ Steel mills ✓ Thermal turbines ✓ Windmills ✓ Agricultural machines ✓ Automotive parts	✓ Chemical machinery ✓ Utilities ✓ White appliances ✓ Chemical machinery ✓ General industries ✓ Blowout preventers	✓ Extruders ✓ Gearboxes ✓ Offshore drilling ✓ Oil rigs ✓ Traction motors for railways			

Source: RHP, MOFS

HEIL has established strong customer relationship with leading global bearing manufacturers. Additionally, it has been involved in the product development process from the design stage and accordingly, has been able to ensure repeat orders from its customers. Its top five customers constitute 70.6% of total revenue.

Exhibit 9: Strong customer relationship with leading global bearing companies with exports being 63% of revenue



Source: RHP, MOFS

HEIL has four strategically located manufacturing facilities with two near Ahmedabad in Gujarat, India, and one manufacturing unit each at China and Romania. The combined bearing cages capacity of all manufacturing units is 1,097.87 million pieces per annum as on March 31, 2022. Global presence helps the company to penetrate global markets more efficiently. It supplies products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa.

Exhibit 10: Strategically located domestic & international production facilities



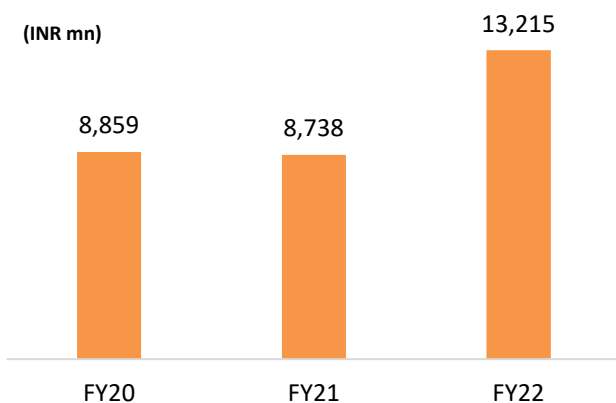
Source: RHP, MOFSL

Risk and concerns

- Exports >50% to Europe and China. Though HEIL has not being impacted so far significantly and the order book remains strong, prolonged uncertainty could impact future revenues
- Derives >70% revenue from top 5 customers. Discontinuation of even one customer could impact its revenue
- Risk of foreign currency fluctuation as derives >60% revenue from exports
- HEIL has unsecured loans amounting to INR735.4 million (19.1% of the total borrowings) that has the risk of being recalled
- There are Contingent liabilities worth Rs900 mn (~10% of Balance sheet), which could pose a risk.

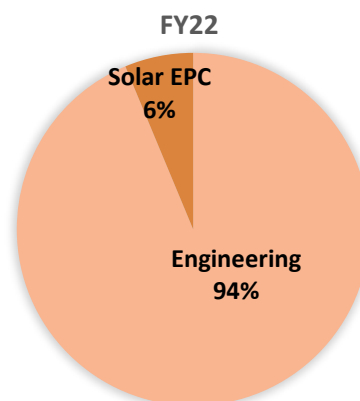
Story in Charts

Exhibit 11: Revenue grew at 51% YoY in FY22



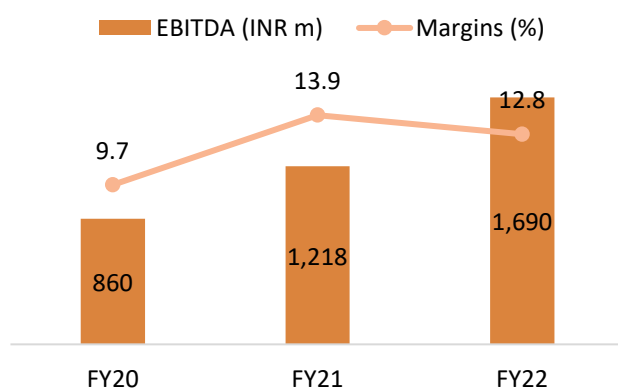
Source: RHP, MOFSL

Exhibit 12: Revenue Breakup FY22



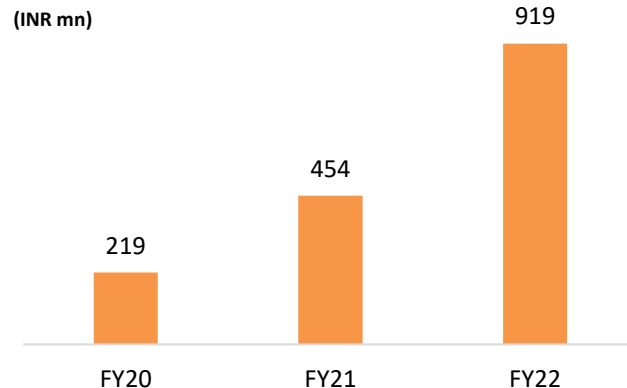
Source: RHP, MOFSL

Exhibit 13: Improving EBITDA margin trend



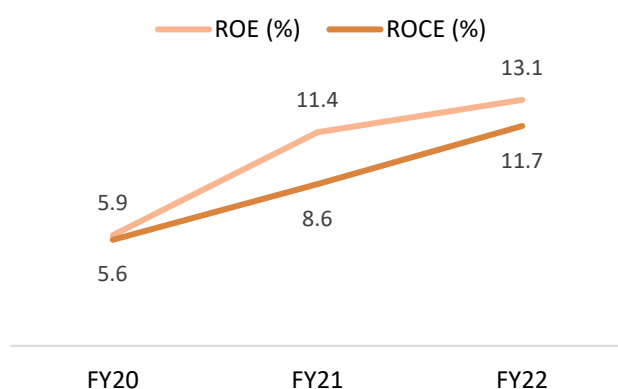
Source: RHP, MOFSL

Exhibit 14: PAT grew at 105% CAGR over FY20-22



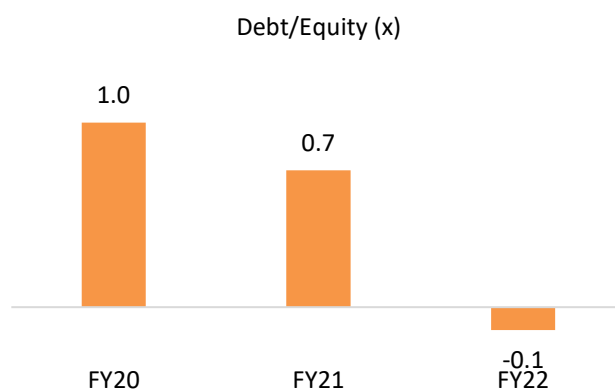
Source: RHP, MOFSL

Exhibit 15: Improving return ratios



Source: RHP, MOFSL

Exhibit 16: Net D/E to fall to -0.1x post IPO



Source: RHP, MOFSL

Financials

Consolidated – Income Statement

(INR mn)

Y/E March	FY20	FY21	FY22
Net Sales	8,859	8,738	13,215
Change (%)	-	-1.4	51.2
Total Expenditure	7,999	7,519	11,525
% of Sales	90.3	86.1	87.2
EBITDA	860	1,218	1,690
Margin (%)	9.7	13.9	12.8
Depreciation	352	341	354
EBIT	507	877	1,337
Int. and Finance Charges	328	300	246
Other Income	137	30	175
PBT	316	607	1,266
Tax	97	153	347
Tax Rate (%)	30.6	25.2	27.4
Minority Interest	0.0	0.0	0.0
Reported PAT	219	454	919
Adjusted PAT	219	454	919
Change (%)	-	107.4	102.3
Margin (%)	2.5	5.2	7.0

Source: Company RHP, MOFSL

Consolidated – Balance Sheet

(INR mn)

Y/E March	FY20	FY21	FY22
Share Capital	500	500	772
Reserves	3,220	3,772	4,446
Net Worth	3,720	4,272	5,219
Debt	4,191	3,567	3,849
Deferred Tax (Net)	-149	20	40
Total Capital Employed	7,762	7,859	9,107
Net Fixed Assets	3,338	3,424	3,557
Capital WIP	34	33	21
Investments	66	93	65
Current Assets	6,295	6,260	7,940
Inventory	2,319	2,675	3,757
Debtors	2,387	2,139	2,828
Cash and Bank Balance	571	453	393
Loans and Advances & OCA	1,017	993	962
Curr. Liability & Provisions	1,970	1,952	2,476
Account Payables	1,115	1,167	1,828
Current Liabilities	748	649	495
Other Long Term Liab. & Provs.	108	136	153
Net Current Assets	4,324	4,308	5,464
Deferred Tax (Net)	0	0	0
Appl. of Funds	7,762	7,859	9,107

Source: Company RHP, MOFSL

Ratios

Y/E March	FY20	FY21	FY22
Basic (INR)			
EPS	2.4	5.0	10.1
Cash EPS	6.3	8.7	14.0
BV/Share	40.9	46.9	107.3
DPS	1.7	0.0	0.0
Valuation (x)			
P/E	137.1	66.1	32.7
Cash P/E	52.6	37.8	23.6
P/BV	8.1	7.0	3.1
EV/Sales	3.8	3.8	2.2
EV/EBITDA	39.2	27.2	16.5
Dividend Yield (%)	0.5	0.0	0.0
Return Ratios (%)			
RoE	5.9	11.4	13.1
RoCE	5.6	8.6	11.7
Working Capital Ratios			
Fixed Asset Turnover (x)	2.7	2.6	3.7
Asset Turnover (x)	1.1	1.1	1.2
Inventory (Days)	96	112	104
Debtor (Days)	98	89	78
Creditor (Days)	46	49	50
Leverage Ratio (x)			
Net Debt/Equity	1.0	0.7	-0.1

Source: Company RHP, MOFSL

*All ratios calculated at the upper price band of INR330

Consolidated – Cash Flow**(INR mn)**

Y/E March	FY120	FY21	FY22
OP/(Loss) before Tax	316	607	1,266
Depreciation	352	341	354
Finance Cost	328	300	246
Income Taxes paid	-134	-11	-311
(Inc)/Dec in WC	296	-23	-1,214
CF from Operations	1,158	1,214	340
Others	-29	-3	24
CF from Operating (Net)	1,129	1,212	365
(Pur)/Sale of FA	-733	-398	-495
(Pur)/Sale of Investments	-8	-27	28
Interest/Dividend received	30	23	16
Bank Deposits	11	206	-56
Others	54	-4	-11
CF from Investments	-646	-200	-518
Proceeds from borrowings	44	-625	282
Issue of equity shares	-	179	-
Interest Paid	-328	-300	-246
Dividend Paid	-26	-	-
Others	-73	-179	1
CF from Fin. Activity	-383	-924	37
Net Inc/Dec of Cash	101	88	-116

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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