



HAPPY FORGINGS LIMITED

Sector: Auto Ancillaries



Issue Opens - December 19, 2023 to December 21, 2023

Price Band
₹808 to ₹850

Face Value
₹2

Lot Size
17 Shares

Issue Size
₹1,008.59 Cr

Issue Type
Book Built

Research@ganeshstock.com

Important Events



Issue Size

₹1,008.59 Cr

Fresh Issue

₹400.00 Cr

Offer for Sale

₹608.59 Cr

Basis of Allotment

Friday, December 22, 2023

Initiation of Refunds

Tuesday, December 26, 2023

Credit of Shares to Demat

Tuesday, December 26, 2023

HFL IPO Listing date

Wednesday, December 27, 2023

Promoters

- **Paritosh Kumar (Chairman and Managing Director)**
- **Ashish Garg (Managing Director)**
- **Megha Garg (Whole-time Director)**
- **Narinder Singh Juneja (Chief Executive Officer and Whole-time Director)**

Promoters collectively hold 78.60% (Post Issue) of the Equity Share.

About The Company.



Happy Forgings Limited is one of India's leading manufacturers of high precision machined components and heavy duty forgings for the automotive and non-automotive industries. They hold the second largest manufacturing capacity of crankshafts for heavy industrial and commercial vehicles in India. Their diverse product portfolio includes crankshafts, connecting rods, drive shafts, transmission shafts and other essential engine parts. Happy Forgings has more than 40 years of experience and has become a key company in the domestic crankshaft manufacturing industry. They serve leading original equipment manufacturers (OEMs) in various industries, including commercial vehicles, agricultural equipment, off-road vehicles, as well as oil and gas, power generation, rail and wind turbines. This long-standing commitment to quality and innovation has positioned Happy Forgings as a trusted and reliable partner to its customers.

Description of Their Business

They are the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India as of Fiscal 2023 in terms of forgings capacity (Source: Ricardo Report). They, through their vertically integrated operations, are engaged in engineering, process design, testing, manufacturing, and supply of a variety of components that are both margin accretive and value-additive. They 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. derserved and rural markets with growth potential to ensure easy access to customers.

They 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



End Use Industries



They are a supplier to each of the top five Indian OEMs, by market share, in the medium and heavy commercial vehicle industry and four of the top five Indian OEMs in the farm equipment industry by market share, in Fiscal 2023 (Source: Ricardo Report). They believe that their long-standing relationships with their customers has positioned 205 us as a trusted supplier for several Indian and global OEMs. Some of their customers include AAM India Manufacturing Corporation Private Limited, Ashok Leyland Limited, Bonfiglioli Transmissions Private Limited, Dana India, IBCC Industries (India) Private Limited, International Tractors Limited, JCB India Limited, Liebherr CMCTec India Private Limited, Mahindra & Mahindra Limited, Meritor HVS AB, Meritor Heavy Vehicle Systems Cameri SPA, SML ISUZU Limited, Swaraj Engines Limited, Same Deutz Fahr India Private Limited, Tata Cummins Private Limited, Watson & Chalin India Private Limited (Hendrickson India Commercial Vehicle Systems) and Yanmar Engine Manufacturing India Private Limited. As of March 31, 2023, 2022 and 2021, their customers who have been associated with us for more than 10 years contributed 75.98%, 79.38% and 80.67% to their revenues from sale of products in Fiscal 2023, 2022 and 2021, respectively which indicates the depth of their relationships with them.

Objects of The Offer

The Company proposes to utilize the Net Proceeds towards the funding of the following objects:

- Purchase of equipment, plant and machinery.
- Prepayment of all or a portion of certain outstanding borrowings availed by the Company and
- General corporate purposes.

Track Record Of Financial Performance

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

Sector	Fiscal 2023		Fiscal 2022		Fiscal 2021		CAGR (Fiscal 2021 to Fiscal 2023)
	Consolidated		Consolidated		Standalone		
	Amount (₹ million)	Percentage of Revenue from Sale of Products	Amount (₹ million)	Percentage of Revenue from Sale of Products	Amount (₹ million)	Percentage of Revenue from Sale of Products	
Automotive Sector ⁽¹⁾	4,656.76	43.65%	3,355.58	42.72%	2,054.10	37.50%	50.57%
Non Automotive Sector ⁽²⁾	6,012.73	56.35%	4,500.07	57.28%	3,423.30	62.50%	32.53%
Revenue from the Sale of Products	10,669.49	100.00%	7,855.65	100.00%	5,477.40	100.00%	39.57%

The following table sets forth certain financial information for our Company for the years indicated

Particulars	As of/ For the year ended March 31,		
	2023	2022	2021
	Consolidated	Consolidated	Standalone
Revenue from Operations (₹ million)	11,965.30	8,600.46	5,849.58
Total Income (₹ million)	12,022.71	8,661.05	5,908.13
Gross Profit (₹ million) ⁽¹⁾	6,454.74	4,716.55	3,333.55
Gross Margin (%) ⁽²⁾	53.95%	54.84%	56.99%
EBITDA (₹ million) ⁽³⁾	3,409.40	2,308.87	1,587.46
EBITDA Margin (%) ⁽⁴⁾	28.49%	26.85%	27.14%
Restated Profit Before Tax (₹ million)	2,800.29	1,920.52	1,170.61
Restated Profit for the Year (₹ million)	2,087.01	1,422.89	864.48
PAT Margin (%) ⁽⁵⁾	17.44%	16.54%	14.78%
Total Equity (₹ million)	9,883.07	7,876.24	6,451.59
Total Current Assets (₹ million)	4,893.40	4,249.68	3,367.86
Total Non-Current Assets (₹ million)	8,362.11	7,042.84	5,389.81
Total Assets (₹ million)	13,261.68	11,298.69	8,763.84
Return on Equity (%) ⁽⁶⁾	21.12%	18.07%	13.40%
Return on Capital Employed (%) ⁽⁷⁾	24.24%	19.38%	16.13%
Cash Conversion Cycle (days) ⁽⁸⁾	167	187	184
Gross Block (i.e. cost of property, plant and equipment, capital work-in-progress, cost of intangible assets and intangible assets under development) (₹ million)	9,338.64	7,980.78	5,469.17
Gross Fixed Assets Turnover Ratio (in times) ⁽⁹⁾	1.40	1.47	1.16
Addition to Property, Plant and Equipment (₹ million)	2,777.96	775.90	1,760.39
Net Debt to EBITDA (in times) ⁽¹⁰⁾	0.64	1.03	0.79



Statement of Profit and loss

(All amounts in INR millions, unless stated otherwise)

Particulars	Note No.	Consolidated		Standalone
		For the Year ended March 31, 2023	For the Year ended March 31, 2022	For the Year ended March 31, 2021
Income				
Revenue from operations	20	11,965.30	8,600.46	5,849.58
Other Income	21	57.41	60.59	58.55
TOTAL INCOME (I)		12,022.71	8,661.05	5,908.13
Expenses				
Cost of raw materials and components consumed	22	5,477.24	4,358.47	2,572.56
(Increase)/ decrease in inventories of finished goods, work-in-progress and scrap	23	33.32	(474.55)	(56.53)
Employee benefits expense	24	877.76	686.78	489.98
Finance costs	25	124.75	71.59	117.84
Depreciation and amortization expense	26	541.82	377.40	357.56
Other expenses	27	2,167.58	1,720.89	1,256.11
TOTAL EXPENSES (II)		9,222.47	6,740.58	4,737.52
Restated profit before share of profit of a Joint Venture and tax [III = I + II]		2,800.24	1,920.47	1,170.61
Share of net profit of Joint venture (IV)	43	0.05	0.05	-
RESTATED PROFIT BEFORE TAX [V = III + IV]		2,800.29	1,920.52	1,170.61
Tax expense:				
Current tax (net)	16	685.43	469.16	315.78
Adjustments of tax relating to earlier periods	16	(0.92)	1.75	0.02
Deferred tax charge/ (credit)	16	28.77	26.72	(9.67)
TOTAL INCOME TAX EXPENSE (VI)		713.28	497.63	306.13
RESTATED PROFIT FOR THE YEAR [VII = V - VI]		2,087.01	1,422.89	864.48
OTHER COMPREHENSIVE INCOME (OCI)				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods				
Remeasurement gain/(losses) on defined benefit plans	33	3.11	4.35	3.15
Less: Income tax effect on above	16	0.78	1.09	0.79
Total Other comprehensive income not to be reclassified to profit or loss in subsequent periods		2.33	3.26	2.36
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Net Movement on effective portion of cash flow hedges	40	(110.26)	-	-
Less: Income tax effect on above	16	27.75	-	-
Total Other comprehensive income to be reclassified to profit or loss in subsequent periods		(82.51)	-	-
RESTATED OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		(80.18)	3.26	2.36
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		2,006.83	1,426.15	866.84
Earnings per share: (In Rs.)				
(Nominal value Rs 2/- per share (March 31, 2022 Rs 2 per share, March 31, 2021 Rs 100 per share))*				
(i) Basic	28	23.32	15.90	9.66
(ii) Diluted	28	23.32	15.90	9.66



Strengths

- The company is the fourth largest engineering-led manufacturer of complex and safety critical, heavy forged and high precision machined components in India.
- It has integrated manufacturing operations coupled with in-house product and process design capabilities.
- The company has a diverse product portfolio with increasing value addition.
- It has a diversified business model and is well-placed to take advantage of potential alternative engine technologies.
- The company has built long-standing relationships with customers across industries.
- It has a track record of consistently building capabilities and infrastructure, with a focus on capital efficiency.
- Experienced promoters and management team.

Risks

- The business depends on the performance of the commercial vehicle, agricultural equipment and off-road vehicle industries in India and abroad.
- It has significant capital and working capital needs.
- Its business and profits depend largely on the availability and cost of steel.
- A significant portion of revenue comes from crankshaft sales.
- Bearing counterparty credit risk.
- Operating in a highly competitive field.
- It is subject to strict quality and delivery requirements.
- Fluctuations in exchange rates may affect business operations.

Valuation and Outlook



The issue's price range, in terms of valuation, is ₹808 to ₹850 per share. A P/E ratio of Happy Forgings Limited is 36.44x is based on a price range above INR 850 and FY23 EPS of INR 23.32 with an industry average of 70.37x.

COMPARISON WITH LISTED INDUSTRY PEERS (As of Mar 31,2023)

Name of the company	Consolidated/ Standalone	Face value (₹ per share)	Closing price as at August 4, 2023 (as per BSE)	Revenue from operations (in ₹ million)	EPS		NAV (₹ per share)	P/E (in times)	RoN W (%)
					Basic	Diluted			
Happy Forgings Limited [#]	Consolidated	2.00	-	11,965.30	23.32	23.32	110.43	-	21.12 %
Bharat Forge Limited [#]	Consolidated	2.00	912.45	129,102.59	11.35	11.35	144.02	80.39	7.88 %
Craftsman Automation Limited [#]	Consolidated	5.00	4637.95	31,826.00	117.56	117.56	651.68	39.45	18.04 %
Ramkrishna Forgings Limited [#]	Consolidated	2.00	562.95	31,928.95	15.52	15.43	82.67	36.48	18.77 %
Sona BLW Precision Forgings Limited [#]	Consolidated	10.00	557.90	26,550.10	6.76	6.75	39.12	82.65	17.26 %

[#]Financial information for our Company is derived from the Restated Financial Information as at and for the financial year ended March 31, 2023.

Leading manufacturer of intricate, precise, and important machined parts for a range of industries is HFL. It provided its goods to well-known international OEMs. Both the company's top and bottom lines showed consistent growth. It is the fourth-largest manufacturer of complex machine components, with a wealth of knowledge. The business has a deep history of cooperation with its sizable clientele. It has a proven track record of steady expansion and a diverse business plan. The company has performed well financially as well. It also has intentions to expand its capacity and acquire additional companies.

For Good listing gains, we suggest rating this initial public offering (IPO) as "**SUBSCRIBE**" and holding it in your portfolio for the long run.

Disclaimer:

This report is not for public distribution and has been furnished solely for information and must not be reproduced or redistributed to others. None can use the report as a base for any claim, demand or cause of action and, also none is responsible for any loss incurred based upon. The investments discussed or recommended in this report may not be suitable for all investors. Opinion expressed is the current opinion as of the date appearing on the material only.

Further, the information in the document has been printed on the basis of publicly available information; internal data and other sources believed to be true and are for general guidance only but which may have not been verified independently.

While every effort is made to ensure the accuracy and completeness of information contained, the company takes no responsibility and assumes no liability for any error/ omission or accuracy of the information. Recipients of this material should rely on their own judgments and conclusions from relevant sources before making any investment.

The investment advice should not be considered to be or taken as an offer to sell or a solicitation to buy/sell any security. Price and value of the investments referred to in this material are subject to volatility. Past performance is not a guide for future performance. Certain transactions -futures, options and other derivatives as well as non-investment grade securities are subjected to substantial risks and are not suitable for all investors.

