

**Rating: Subscribe for Long Term**

**Issue Offer**

**Fresh Issue of 4,705,882 equity shares up to INR 4,000mn and OFS of 7,159,882 shares by Promoters group taking the total issue size at INR 10,086mn**

**Issue Summary**

Price Band (INR)	808-850
Face Value (INR)	2
Implied Market Cap (INR Mn)	80,070
Market Lot	17
Issue Opens on	Dec, 19, 2023
Issue Close on	Dec, 21, 2023
No. of share pre-issue	89,499,000
No. of share post issue	94,204,882
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	≤ 50
NIB Portion	≥15
Retail Portion	≥35

**Book Running Lead Managers**

Equirus Capital Pvt Ltd, Axis Capital Ltd  
Motilal Oswal Investment Advisor Ltd  
JM Financial Ltd

**Registrar**

Link Intime India Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	88.24%	76.23%
Public & Others	11.76%	23.77%

**Objects of the issue**

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

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**Happy Forgings Ltd** is the fourth-largest engineering-led manufacturer in India, specializing in complex and safety-critical components. The company is the leading player in the crankshaft manufacturing industry and has 2<sup>nd</sup> largest production capacity for commercial vehicles and high-horsepower industrial crankshaft in India. The company has a 1,20,000 MT forging capacity, 47,200 MT machining capacity, and a forging capacity of 14,000 MT as of FY23. The company is catering to domestic and global OEMs, particularly in commercial vehicles with a focus on machined products and engineering-led manufacturers in India, specializing in heavy forged and machined components. The company has emerged as a dominant player with a focus on value-added products.

**Investment Rationale**

**Focused on accretive value-added products would improve profitability:** Happy Forgings is the leading player in the domestic crankshaft manufacturing industry and 2<sup>nd</sup> largest production capacity for commercial vehicles and high horsepower industrial crankshafts. The company is focused on machining and value addition products would lead to margin improvement going forward.

**Long-standing relationship with customers:** The company has 66 customers and has more than 10 years of business relationships with the top 10 customers, which contributes ~73% of revenue from the sale of products as of H1FY24. The company is the top supplier of the top 5 Indian OEMs in the MHCV segment and four of the top 5 Indian OEMs in the farm equipment segment by market share as of FY23. The company is serving customers in 9 countries, including the US, UK, Japan, Brazil, Italy etc.

**Leverage in-house engineering and product development capabilities:** The company manufactured forged and precision-machined components with a focus on defense, power generation, oil and gas, and wind turbines by leveraging its newly installed 14,000-tonne press. This will allow the company to forge heavier and more complex parts weighing up to 250 kg. The company also wants to add a new solution for heavy transmission gear-cutting in machining and happy forgings up to 1 tonne, this will advance the company's position in the value chain and growth in product portfolio which increase opportunities in the markets.

**Increase in wallet share and focused on strategic acquisitions:** The company is targeting new business from global customers who used to buy from China and Europe. As well as they plan to sell more products to their current customers in different places. They started supplying 195 kg front axle beams to an Indian automotive company for their electric buses, This would help them to grow their customer base and make more revenue streams. The target entities that expand opportunities in other end markets, geographic regions, new customers, and new products. In 2008 and 2022 the company purchased and relocated crankshaft production lines from an automotive manufacturer in Sweden and Germany to manufacture crankshafts for various applications. This means looking into and thinking about opportunities that can work well together and match the company's plan to grow.

**Valuation and View:** Happy Forgings is the leading player in the crankshaft manufacturing industry and having 2<sup>nd</sup> largest production capacity for commercial vehicles and high horse power industrial crankshafts. The in-house manufacturing, automation and process optimization would improve the margins. The company has long standing relationship with customers (>10 years) and targeting to China & Europe for new opportunities. The strategic acquisitions to expand business, geography, new products and customers would lead to growth going forward. At the upper band of INR 850, the issue is valued at a EV/EBITDA of 22.9x based on FY23 EBITDA and PE of 37.9x of FY23 EPS. We are recommending "Subscribe for Long Term" for this issue.

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	5,850	8,600	11,965
Operating expenses	2,516	3,884	5,511
<b>Gross Profit</b>	<b>3,333</b>	<b>4,717</b>	<b>6,455</b>
<b>Gross Margin (%)</b>	<b>57.0%</b>	<b>54.8%</b>	<b>53.9%</b>
Employee Cost	490	687	878
Other Expenses	1,256	1,721	2,168
<b>EBITDA</b>	<b>1,587</b>	<b>2,309</b>	<b>3,409</b>
<b>EBITDA Margin (%)</b>	<b>27.1%</b>	<b>26.8%</b>	<b>28.5%</b>
Depreciation	(358)	(377)	(542)
Interest expense	(118)	(72)	(125)
Other income	59	61	57
Share of profits associate & JV	-	0.1	0.1
<b>Profit before tax</b>	<b>1,170</b>	<b>1,921</b>	<b>2,800</b>
Taxes	(306)	(498)	(713)
Minorities and other			
<b>PAT</b>	<b>864</b>	<b>1,423</b>	<b>2,087</b>
<b>PAT Margin (%)</b>	<b>14.8%</b>	<b>16.5%</b>	<b>17.4%</b>
<b>EPS (INR)</b>	<b>19.4</b>	<b>15.9</b>	<b>22.4</b>

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	90	179	179
Reserves	6,362	7,697	9,704
<b>Net worth</b>	<b>6,452</b>	<b>7,876</b>	<b>9,883</b>
Minority Interest	-	-	-
Provisions	19	27	38
Debt	1,608	2,608	2,445
Other non-current liabilities	202	229	230
<b>Total Liabilities</b>	<b>8,280</b>	<b>10,741</b>	<b>12,596</b>
Fixed assets	4,145	4,546	6,770
Capital Work In Progress	394	2,123	748
Other Intangible assets	11	16	15
Goodwill	-	-	-
Investments	72	79	315
Other non current assets	768	280	515
<b>Net working capital</b>	<b>2,591</b>	<b>3,652</b>	<b>4,224</b>
Inventories	1,216	1,840	1,696
Sundry debtors	1,658	2,220	3,081
Loans & Advances	1	2	3
Other current assets	200	148	110
Sundry creditors	(379)	(442)	(477)
Other current liabilities & Prov	(104)	(116)	(188)
Cash	278	15	3
Other Financial Assets	22	31	7
<b>Total Assets</b>	<b>8,280</b>	<b>10,741</b>	<b>12,596</b>

Source: Company Reports, Arihant Capital Research

## Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	1,170	1,921	2,800
Depreciation	358	377	542
Tax paid	(306)	(498)	(713)
Working capital Δ	(2,591)	(1,061)	(572)
Change in Goodwill	-	-	-
<b>Operating cashflow</b>	<b>(1,369)</b>	<b>739</b>	<b>2,057</b>
Capital expenditure	(4,897)	(2,507)	(1,390)
<b>Free cash flow</b>	<b>(6,266)</b>	<b>(1,768)</b>	<b>667</b>
Equity raised	5,587	2	(80)
Investments	(72)	(7)	(236)
Others	(800)	474	(210)
Debt financing/disposal	1,608	1,000	(163)
Dividends paid	-	-	-
Other items	221	36	12
<b>Net Δ in cash</b>	<b>278</b>	<b>(263)</b>	<b>(11)</b>
<b>Opening Cash Flow</b>	<b>-</b>	<b>278</b>	<b>15</b>
<b>Closing Cash Flow</b>	<b>278</b>	<b>15</b>	<b>3</b>

Source: Company Reports, Arihant Capital Research

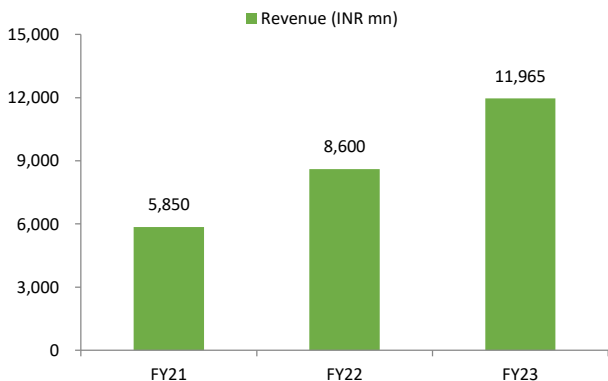
## Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
<b>Growth matrix (%)</b>			
Revenue growth		47.0%	39.1%
Op profit growth		45.5%	47.7%
<b>Profitability ratios (%)</b>			
OPM	27.1%	26.8%	28.5%
Net profit margin	14.8%	16.5%	17.4%
RoCE	11.8%	15.9%	19.1%
RoNW	13.4%	19.9%	23.5%
RoA	10.4%	13.2%	16.6%
<b>Per share ratios (INR)</b>			
EPS	19.4	15.9	22.4
Cash EPS	27.3	20.1	29.4
Book value per share	144.2	88.0	110.4
<b>Valuation ratios (x)</b>			
P/E	43.9	53.3	37.9
P/CEPS	31.1	42.3	28.9
P/B	5.9	9.7	7.7
EV/EBITDA	24.8	34.0	22.9
<b>Payout (%)</b>			
Dividend payout	0.0%	0.0%	0.0%
Tax payout	26.2%	25.9%	25.5%
<b>Liquidity ratios</b>			
Debtor days	103	82	81
Inventory days	176	144	117
Creditor days	32	24	20
WC Days	247	202	178

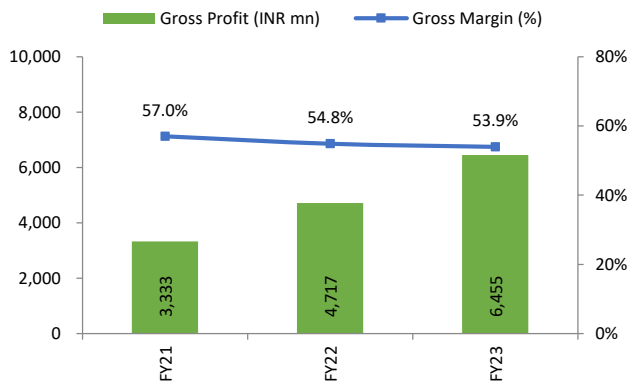
Source: Company Reports, Arihant Capital Research

Story in Charts

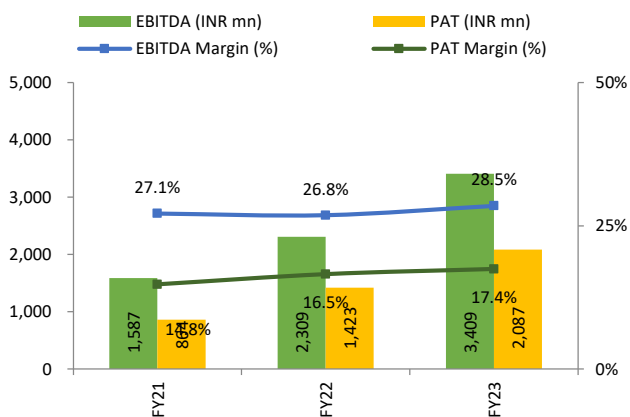
**Exhibit 1: Happy Forgings grew at a CAGR of 43% over the period of FY21-23.**



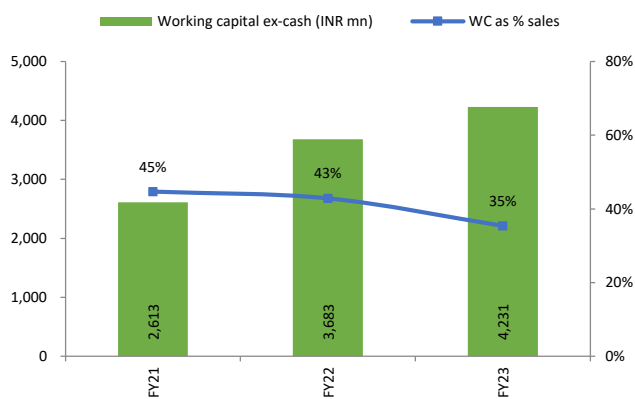
**Exhibit 2: Gross margins were reduced to 53.9% in FY23, due to increase in RM costs.**



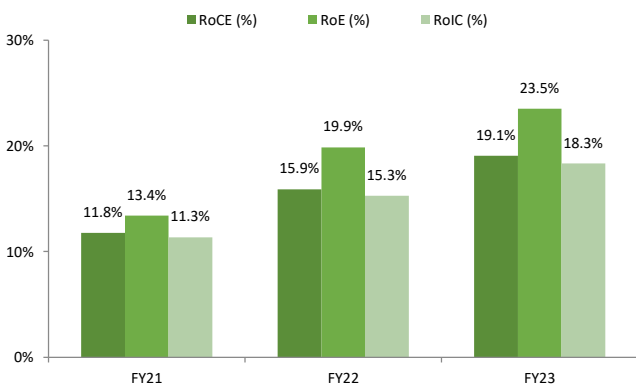
**Exhibit 3: Reduction in employee and other expenses led to margin improvement in FY23, despite RM cost impact.**



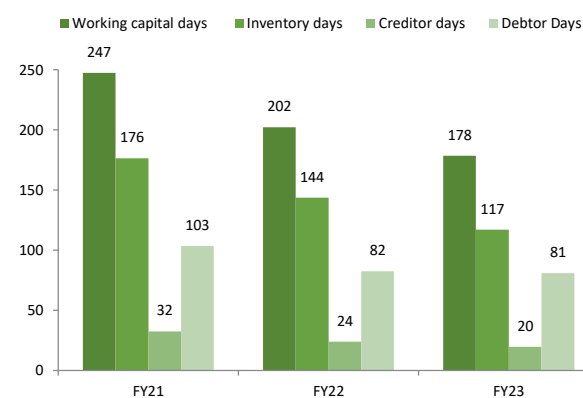
**Exhibit 4: Working capital has reduced in terms of sales.**



**Exhibit 5: Return ratio were improved over the period of FY21-23.**



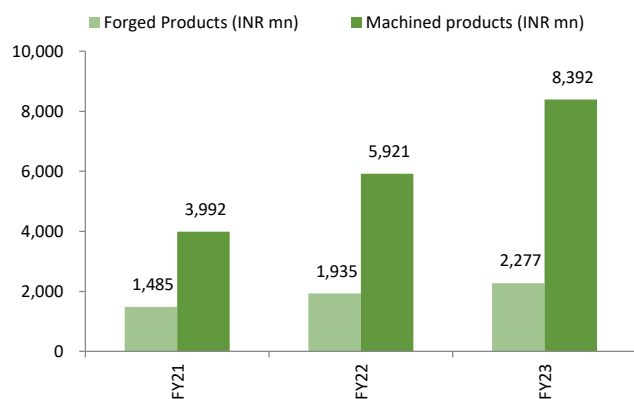
**Exhibit 6: Working capital days were reduced.**



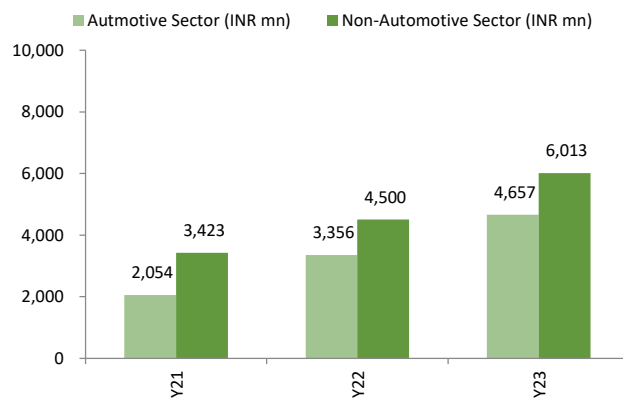
Source: RHP, Company Reports, Arihant Capital Research

Story in Charts

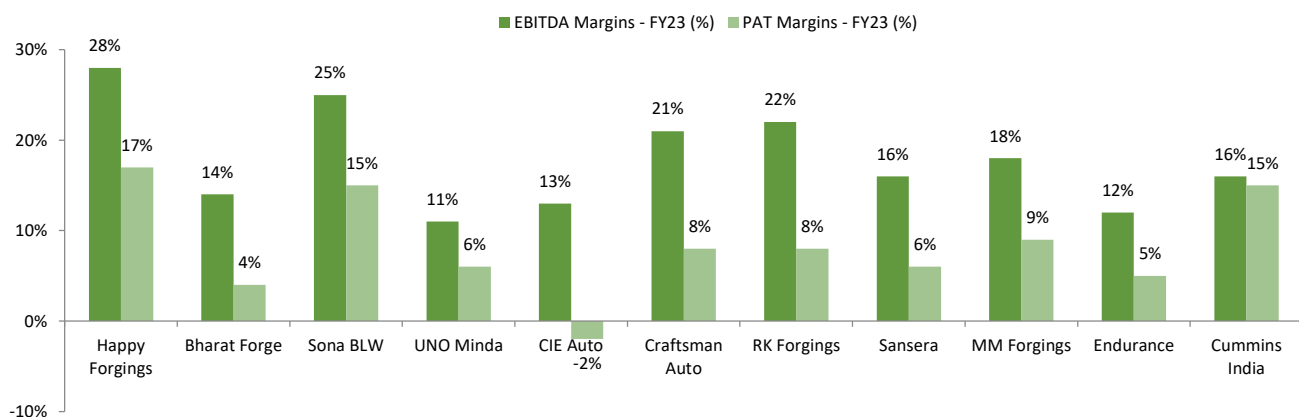
**Exhibit 7: Forged products and Machined products revenue grew at a CAGR of 23.8% and 45% respectively over the period of FY21-23.**



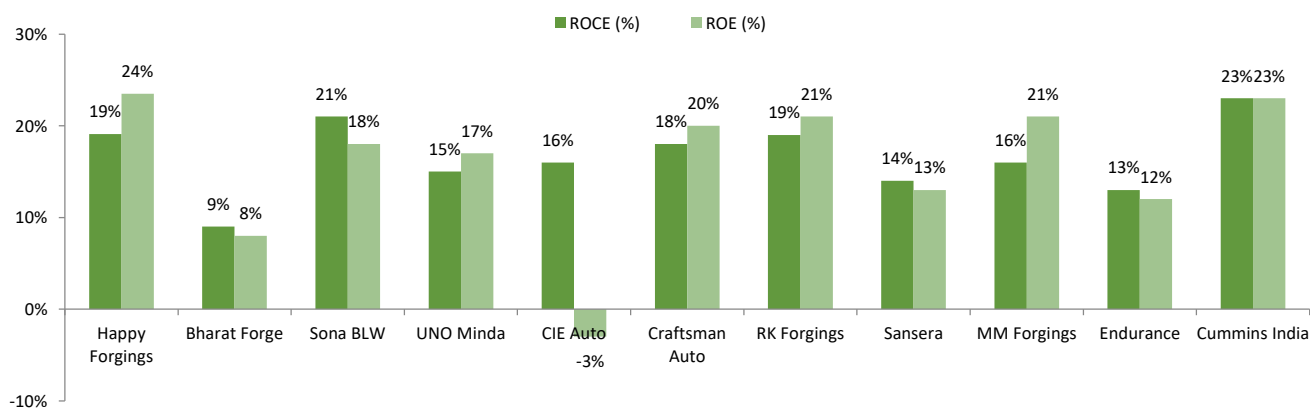
**Exhibit 8: Automotive and Non-Automotive revenue grew at a CAGR of 50.6% and 32.5% respectively over the period of FY21-23.**



**Exhibit 9: Happy Forgings margins were better than peers.**



**Exhibit 10: Happy Forgings return ratios were above median levels compared to peers.**



Source: RHP, Company Reports, Arianth Capital Research

## Peer comparison

Particular	Happy Forging Ltd	Bharat Forge	Craftsman Automation	Ramkrishna Forgings	Sona BLW Precision Forgings	M M Forgings
<b>Market Leader</b>	The company is prominent participant in the domestic crankshaft manufacturing sector and boasting the second-highest production capacity for commercial vehicle and high-horsepower industrial crankshafts in India.	The company is the biggest forging company globally and stand out in aerospace and automotive forging. Their vast knowledge in metallurgy, along with top-notch design, engineering, and manufacturing skills, makes them a leading forging manufacturer in India.	They are a top-notch engineering company that excels in making precise components for various industries. Quality is central to every part they create and setting a high standard for reliability.	They are skilled organization with top-notch facilities and supplying precision components globally. They are also crucial suppliers for railway safety components.	The company is a leading automotive technology firm in India, providing essential components like differential assemblies, gears, starter motors, BSG systems, and EV traction motors to global automotive OEMs. They serve various vehicle categories, from conventional to electric, across the US, Europe, India, and China.	The company is a top exporter of forgings in India, known globally. It aims to be a go-to place for forging needs, focusing on excellent products and strong relationships with everyone involved.
<b>Marquee Customers</b>	AAM, Ashok Leyland, Bonfiglioli, Dana, IBCC, International Tractors, JCB, Liebherr CMCTec India, Mahindra & Mahindra, Meritor HVS AB, Meritor Heavy Vehicle Systems Camerica, SPA, SML ISUZU, Swaraj Engines, Same Deutz Fahr, Tata Cummins, Watson & Chalin, Yanmar Engine, etc.	Daimler, Iveco, GM, Ford, Volvo, Audi, Tata, BharatBenz, Caterpillar, Halliburton, FCA, DAF, BMW, Detroit Diesel, Ashok Leyland, Safran, Cameron, Perkins, HAL, Maruti Suzuki, Boeing, Scania, Mahindra, Fuso, Volvo, Toyota, Man, Dana, Etc	Daimler India, Tata Motors, Tata Cummins, Mahindra & Mahindra, Simpson & Co. Limited, TAFE Motors and Tractors, Escorts, Ashok Leyland, Perkins, Mitsubishi Heavy Industries, John Deere and JCB India.	TATA Motors, Ashok Leyland, VE Commercial and Daimler in India and to Volvo, Mack Trucks, Iveco, Ford, Dana, Sisamex, Meritor and American Axles.	Maruti Suzuki, Tata, TAFE, Mahindra & Mahindra, ITL, John Deere, Escorts, DICV Trucks India, Volvo Eicher and New Holland India, John Deere, American Axle, Linamar, CNH and DANA.	TATA Motors, Ashok Leyland, Axles India, Daimler Group, Hyundai Group, Fortuna, Wheels India, Megatech, Renault etc.
<b>Manufacturing &amp; Facilities</b>	The Company have 3 Plants.	The company have 15 plants 8 in India, 2 in North America and 5 in Europe.	The company have 13 plants present in 15 Locations.	The company have total 6 plants in India and 12 offices 6 in India and 6 is International.	The company have 9 plants spread across india, China ,Mexico and USA.	The Company have 11 plants and located in 9 locations.
<b>Segment Mix</b>	Crank Shafts, Transmission Part, Steering Knuckle, Railway parts, Front Axle Components, Differential Case, Windmill Application Product, Oil and Gas, etc.	Automotive, Power, Oil & Gas, Rail, Marine, Aerospace, Construction & Mining, E-Mobility, Castings, etc.	Automotive Powertrain, Automotive Aluminum, Industrial Engineering products , etc.	Crown Wheel, Ring gears, I Beam, Connecting Rod, Crankshaft, Knuckle, etc.	Driveline Parts, Starter Motor, BSG, Controller, Hub Wheel Motor, Sensors & Software, etc.	Passenger Cars parts, Commercial Vehicles parts, Agricultural parts, Off Highway parts, High Pressure Valves, etc.

Source: RHP, Company reports, Arihant Capital Research

Particular (INR mn)	Price (INR)	Market Cap	Sales - FY23	EBITDA - FY23	PAT - FY23	ROE (%)	ROCE (%)	EPS (INR)	P/E (x)
<b>Happy Forging Ltd</b>	<b>850</b>	<b>80,070</b>	<b>11,965</b>	<b>3,409</b>	<b>2,087</b>	<b>21.1%</b>	<b>24.2%</b>	<b>22.4</b>	<b>37.9</b>
Bharat Forge	1,194	555,610	129,103	17,217	5,084	6.9%	7.7%	14.4	109.3
Craftsman Automation	5,278	111,520	31,826	6,836	2,510	19.8%	20.6%	141	44.4
Ramkrishna Forgings	758	137,040	31,929	6,923	2,481	20.6%	18.5%	18	55.2
Sona BLW Precision Forgings	555	325,450	26,550	6,719	3,953	18.3%	22.0%	7.91	82.3
M M Forgings	934	22,560	14,254	2,717	1,256	19.8%	15.1%	54.2	18.0

Source: RHP, Company reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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