



HAPPY FORGINGS LIMITED

**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

**Issue Highlights**

| Industry                       | Auto ancillary    |
|--------------------------------|-------------------|
| Offer for sale (Shares)        | 7,159,920         |
| Fresh Issue (Shares)           | 4,705,882         |
| <b>Net Offer to the Public</b> | <b>11,865,802</b> |
| Issue Size (Rs. Cr.)           | 958-1009          |
| Price Band (Rs.)               | 808-850           |
| Offer Date                     | 19-Dec-23         |
| Close Date                     | 21-Dec-23         |
| Face Value                     | 2                 |
| Lot Size                       | 17                |

**Issue Composition**

|                      | In shares  |
|----------------------|------------|
| Total Issue for Sale | 11,865,802 |
| QIB                  | 5,932,901  |
| NIB                  | 1,779,870  |
| Retail               | 4,153,031  |

**Shareholding Pattern (%)**

| Particulars                 | Pre-issue      | Post-issue     |
|-----------------------------|----------------|----------------|
| Promoters & promoters group | 88.24%         | 88.49%         |
| QIB                         | 11.76%         | 4.42%          |
| NIB                         | 0.00%          | 2.13%          |
| Retail                      | 0.00%          | 4.96%          |
| <b>Total</b>                | <b>100.00%</b> | <b>100.00%</b> |

\*calculated on the upper price band

**Objects of the Issue**

The objectives of the Offer are to

1. Purchase of equipment, plant and machinery;
2. Prepayment of all or a portion of certain outstanding borrowings availed by our Company; and
3. General corporate purposes.

**Book Running Lead Manager**

- Jm Financial Limited
- Axis Capital Limited
- Equirus Capital Private Limited
- Motilal Oswal Investment Advisors Limited

**Name of the registrar**

- Link Intime India Private Ltd

**About the company**

Incorporated in July 1979, Happy Forgings Limited is an Indian manufacturer specializing in designing and manufacturing heavy forgings and high-precision machined components. The company manufactures, designs and tests various products such as crankshafts, front axle carriers, steering knuckles, differential housings, transmission parts, pinion shafts, suspension products and valve bodies for different industries and customers. The company's customer base includes 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 and others. The company has served customers in various regions including Brazil, Italy, Japan, Spain, Sweden, Thailand, Turkey, the United Kingdom and the United States of America. Happy Forging Limited has three manufacturing facilities, two in Kanganwal and one in Dugri, all located in Ludhiana, Punjab. As of FY 2023, the operational revenue of the company has increased by 43.02%.

**Strength**

**Fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined components in India:** In terms of forging capacity as of Fiscal 2023, it is the fourth largest engineering led manufacturer of complex and safety critical, heavy forged and high precision machined component in India. As a result of increased focus on manufacturing machined products, in Fiscal 2023, it recorded one of the highest revenue contributions from the sale of machined products in the overall product sales in comparison to peers. Its commitment to continuous investment in machinery and equipment has enabled it to increase its annual aggregate installed capacity for machining from 29,500.00 MT as of March 31, 2021 to 46,100.00 MT as of March 31, 2023 and further to 47,200.00 MT as of September 30, 2023. In Fiscal 2023, 2022, 2021 and the six months ended September 30, 2023 and 2022, its additions to its cost of plant, property and equipment were Rs.277.80 crore, Rs. 77.59 crore, 176.04 crore, Rs. 50.68 crore and Rs. 89.03 crore, respectively.

**Integrated manufacturing operations coupled with in-house product and process design capabilities resulting in a diverse product portfolio with increasing value addition:** It expanded its capabilities to manufacture complex and safety critical parts, resulting in a diverse product portfolio of machined parts such as crankshaft, transmission parts, suspension products and other products for commercial vehicles, farm equipment, and off-highway vehicles. In addition, it also expanded its capabilities to manufacture and supply components with applications in industries including oil and gas, power generation, railways and wind turbines. As of March 31, 2023, it is only the second company in India to have a 14,000 tonne forging press or higher forging press and are among four companies in India that possess a 8,000 tonne forging press or higher forging press.

**Diversified business model, well placed to take advantage of potential alternative engine technologies:** Its business model is well diversified by end use industry and customer base. In automotive sector, it derives its revenues from OEMs of commercial vehicles. Within the non-automotive sector, it manufactures and supplies a wide range of precision components to OEMs of farm equipment, off-highway vehicles, and industrial machinery and equipment for oil and gas, power generation, railways and wind turbine industries. It has a diversified customer base and it served 66 customers in Fiscal 2023 and 59 customers in the six months ended September 30, 2023.

**Long-standing relationships with customers across industries:** It has, through over 40 years of business operations, established long-standing relationships with several Indian and global customers across industries. It is among the few companies in India that manufacture and supply high precision safety critical components to leading OEMs including manufacturers of commercial vehicles, farm equipment, off-highway vehicles and industrial equipment and machinery for oil and gas, power generation, railways and wind turbine industries. It has a diversified customer base and it has served 66 customers in Fiscal 2023 and 59 customers in the six months ended September 30, 2023. It believes its focus on quality, providing customised solution to its customers and timely delivery of its product offerings have helped it establish and maintain long term relationships with its customers.

**Track record of consistently building capabilities and infrastructure, with focus on capital efficiency:** It operates three manufacturing facilities with two manufacturing facilities located at Kanganwal in Ludhiana, Punjab, spread over a built up area of 184,765.50 square feet and 439,128.00 square feet and one located at Dugri in Ludhiana, Punjab, spread over a built up area of 1,771,208.46 square feet. As of March 31, 2023, the annual aggregated installed capacity for forging and machining was 107,000.00 MT and 46,100.00 MT, respectively and the capacity utilisation was 62.96% and 79.24% in Fiscal 2023, respectively.

**Track record of healthy financial performance:** It has established a track of consistent revenue growth and profitability. It believes that its continued focus on efficiency, productivity improvements and cost rationalization have enabled it to keep its operating costs under control and improve its margins.

## Strategy

**Leverage in-house engineering and product development capabilities to grow product portfolio and tap growing business opportunities in the industrial markets:** It has a track record of developing complex and precision-engineered components for both automotive and non-automotive sectors over several decades. With this experience, it believes it can leverage its engineering and product development capabilities to manufacture forged and precision-machined components that have industrial applications and advance its position in the value chain, with a particular focus on industries such as defence, power generation, oil and gas and wind turbine. In Fiscal 2023, 2022, 2021 and the six months ended September 30, 2023 and 2022, its revenue from sale of products to the industrial market was Rs. 39.50 crore, Rs. 15.76 crore, Rs. 11 crore, Rs. 83.72 crore and Rs. 16.03 crore, respectively, representing 3.70%, 2.01%, 2.01%, 13.70% and 3.04% of its total revenue from sale of products, respectively.

**Foray into lightweight forging and machining with introduction of aluminium components:** By leveraging its existing capabilities, it intends to diversify its product portfolio by entering into the market of lightweight forging and machined components. In particular, it aims to introduce aluminium forging and machined components to cater to the growing demand for lightweight materials in various industries such as automotive, aerospace, and defence. It believes that this will potentially open up new opportunities for its business and help it stay competitive in the market. Further, it may pursue opportunities in the manufacturing of aluminium components for electric vehicles in the passenger vehicle market. With its existing forging machinery and certain additional investment in processes, it may explore manufacturing steering arms, knuckles, suspension parts, and powertrain components specifically tailored for the electric vehicle market.

**Increase its wallet share and acquire new business by leveraging existing OEM relationships and adding new Customers:** It is focused on leveraging long-standing relations with its existing OEMs and adding new customers to increase its wallet share across its products. As of March 31, 2023, 2022 and 2021, customers who have been associated with for more than 10 years contributed 75.98%, 79.38% and 80.67% to its revenues from sale of products in Fiscal 2023, 2022 and 2021, respectively. It endeavours to deliver quality products and services to its existing customers to establish itself as a trusted supplier and increase wallet share by selling across multiple products.

**Capitalise on increasing demand from international markets to grow exports:** Its business footprint reaches across geographies and as of September 30, 2023, it served customers across nine countries including Brazil, Italy, Japan, Spain, Sweden, Thailand, Turkey, the United Kingdom and the United States of America. It aims to leverage the increasing demand from international markets to enhance its exports. This approach not only enables it to diversify its revenue base and expand its geographical foot print, but it also has the potential to improve its margins. It believes that as it expands its exports to international markets; it will be able to take advantage of the increased margins associated with these markets and improve profitability. Furthermore, its strategy of diversifying its revenue base and expanding geographical footprint helps it to mitigate the risks associated with economic fluctuations in any one region. Revenue from contract with customers outside India increased from Rs. 48.10 crore in Fiscal 2021 to Rs. 86.81 crore in Fiscal 2022 and further to Rs. 138.35 crore in Fiscal 2023.

**Expand capacity at existing manufacturing facilities:** It proposes to purchase new machineries and equipment to build up additional capacity for its forging and machining operations from the Net Offer Proceeds. Some of the machineries that it intends to purchase are (i) hot forging press type GLF 10000R; and (ii) automatic die holder, cassettes & die change system for forging press type GLF 10000 R. Some of these new machineries will allow it to provide contingent backup to existing customers who it serves with its 8,000 and 14,000 tonne presses. The installation of new machinery and equipment will enable it to increase its production capacity, scale its operations, onboard new customers, introduce new products, better serve its existing customers, enable it to better address the business requirements of large customers, further improve its customer service and facilitate its growth strategy

**Continue to reduce operating costs and improve operational efficiencies:** As an integral part of its continuing efforts targeted at ensuring cost efficiencies, it has undertaken certain initiatives aimed at improving operational efficiencies and optimizing its manufacturing operations are Line automation and robotics, Installation of solar panels, Reduction in lead-time in manufacturing processes, Leveraging sourcing networks, Improving inventory management and Controlling consumption and wastages.

**Grow inorganically through strategic acquisitions and alliances:** In terms of strategic acquisitions, it intends to explore and consider opportunities that can create synergies between the target companies and the company and is in line with its growth strategy. In the past, it purchased and relocated certain assets to strengthen its capabilities. For example, in 2008, it purchased and relocated a crankshaft production line from an automotive manufacturer from Sweden through a trading firm to manufacture crankshafts for various applications. Similarly in 2022, it purchased and relocated machineries used to manufacture crankshaft from another automotive manufacturer from Germany through another trading firm.

### **Risk factor**

- The business of the company largely depends upon its top 10 customers.
- The company does not have agreements having commitment on part of its customers to purchase or place orders with it.
- It depends on a few suppliers for the supply of steel, its primary raw material.
- Its business is dependent on the performance of certain industries particularly commercial vehicles, farm equipment and off-highway vehicles both in the Indian and overseas markets.

## Peer comparison

| Co_Name                             | Total Income | PAT    | EPS    | P/E   | P/BV  | BV     | FV    | Price   | Mcap     |
|-------------------------------------|--------------|--------|--------|-------|-------|--------|-------|---------|----------|
| Bharat Forge Limited                | 14633.87     | 668.63 | 14.78  | 80.77 | 7.93  | 150.61 | 2.00  | 1193.75 | 55579.64 |
| Craftsman Automation Limited        | 3946.09      | 298.29 | 141.18 | 35.62 | 6.98  | 720.64 | 5.00  | 5028.25 | 10623.84 |
| Ramkrishna Forgings Limited         | 3542.95      | 290.22 | 16.05  | 46.52 | 5.30  | 140.76 | 2.00  | 746.65  | 13497.65 |
| Sona BLW Precision Forgings Limited | 2936.70      | 462.80 | 8.05   | 69.09 | 13.40 | 41.49  | 10.00 | 556.15  | 32614.96 |
| Happy Forgings Limited              | 1269.63      | 211.60 | 25.29  | 33.61 | 4.73  | 179.66 | 2.00  | 850.00  | 7112.45  |

\*Financials are based on TTM

## Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.850, the stock is priced at pre issue P/E of 35.95x on TTM EPS of Rs.23.64. Post issue, the stock is priced at a P/E of 33.61x on its EPS of Rs.25.29. Looking at the P/B ratio at Rs.850, pre issue, book value of Rs. 123.28 of P/Bvx 6.89x. Post issue, book value of Rs. 179.66 of P/Bvx 4.73x.

Considering the P/E valuation, on the lower end of the price band of Rs.808, the stock is priced at pre issue P/E of 34.17x on TTM EPS of Rs. 23.64. Post issue, the stock is priced at a P/E of 31.95x on its EPS of Rs. 25.29. Looking at the P/B ratio at Rs.808, pre issue, book value of Rs. 123.28 of P/Bvx 6.55x. Post issue, book value of Rs. 179.66 of P/Bvx 4.50x.

## Industry Outlook

The global forging and machining markets are estimated to be valued at approximately USD 71.9 billion and USD 52.5 billion, respectively, in 2023 and is expected to grow at a CAGR of 5.1% and 5.2% to reach USD 97.0 billion and USD 71.2 billion, respectively, by 2029 (Source: Ricardo Report). Further, the forging and machining markets in India are estimated to be valued at approximately USD 7.3 billion and USD 5.4 billion, respectively, in Fiscal 2024 and is expected to grow at a CAGR of 7.1% and 8.4% to reach USD 10.2 billion and USD 8.0 billion, by Fiscal 2029, respectively.

## Outlook

Happy Forgings is 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. With diversified product range, strong financials, and strategic market position, the company is expected to see good growth going forward. However, customer and supplier dependencies and potential supply chain issues are some negatives.

## An Indicative timetable in respect of the Issue is set out below:

| EVENT  | INDICATIVE DATE<br>(On or about) |
|--|----------------------------------|
| BID/ISSUE OPENS ON   | 19-December-23                   |
| BID/ISSUE CLOSES ON  | 21-December-23                   |
| Finalisation of Basis of Allotment with the Designated Stock Exchange                      | 22-December-23                   |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 26-December-23                   |
| Credit of Equity Shares to demat accounts of Allottees                                     | 26-December-23                   |
| Commencement of trading of the Equity Shares on the Stock Exchanges                        | 27-December-23                   |

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

| Particulars  | Period ended<br>30-Sep-23 (6 Months) | Period ended<br>31-Mar-23 (12 Months) | Period ended<br>31-Mar-22 (12 Months) |
|--|--------------------------------------|---------------------------------------|---------------------------------------|
| Revenue from operations                                  | 672.90                               | 1,196.53                              | 860.05                                |
| Total expenditure  | 477.69                               | 855.59                                | 629.16                                |
| <b>Operating Profit</b>                                  | <b>195.21</b>                        | <b>340.94</b>                         | <b>230.89</b>                         |
| OPM%   | 29.01                                | 28.49                                 | 26.85                                 |
| Other Income   | 2.83                                 | 5.74                                  | 6.06                                  |
| <b>PBDIT</b>   | <b>198.05</b>                        | <b>346.68</b>                         | <b>236.95</b>                         |
| Depreciation   | 31.65                                | 54.18                                 | 37.74                                 |
| <b>PBIT</b>  | <b>166.39</b>                        | <b>292.50</b>                         | <b>199.21</b>                         |
| Interest   | 7.13                                 | 12.48                                 | 7.16                                  |
| Profit before share of profit of a Joint Venture and tax | 159.26                               | 280.02                                | 192.05                                |
| Share of net profit of Joint venture                     | -                                    | 0.01                                  | 0.01                                  |
| <b>Profit before tax</b>                                 | <b>159.26</b>                        | <b>280.03</b>                         | <b>192.05</b>                         |
| Tax  | 39.96                                | 71.33                                 | 49.76                                 |
| <b>PAT</b>   | <b>119.30</b>                        | <b>208.70</b>                         | <b>142.29</b>                         |

Balance sheet is on next page

## Balance Sheet

Rs. in Cr.

| Particulars   | As on 30-Sep-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|---|-----------------|-----------------|-----------------|
| <b>Non-current assets</b>                                   |                 |                 |                 |
| Property, plant and equipment                               | 696.16          | 676.96          | 454.64          |
| Capital work-in-progress                                    | 101.53          | 74.75           | 212.26          |
| Intangible assets   | 1.30            | 1.48            | 1.56            |
| Intangible assets under development                         | 0.91            | -               | -               |
| Investment in Joint Venture                                 |                 |                 | 0.42            |
| <b>Financial Assets</b>                                     |                 |                 |                 |
| Other Financial Assets                                      | 36.38           | 31.50           | 7.47            |
| Non current tax assets (net)                                | -               | -               | 0.17            |
| Other Non-Current Assets                                    | 76.77           | 51.52           | 27.78           |
| <b>Total non-current assets</b>                             | <b>913.05</b>   | <b>836.21</b>   | <b>704.28</b>   |
| <b>Current assets</b>                                       |                 |                 |                 |
| Inventories   | 221.02          | 169.60          | 183.98          |
| <b>Financial Assets</b>                                     |                 |                 |                 |
| <b>Invesments</b>   |                 |                 |                 |
| Trade Receivables   | 323.02          | 308.06          | 222.04          |
| Cash and Cash Equivalents                                   | 0.65            | 0.01            | 0.02            |
| Bank Balances other than cash and cash equivalents as above | 0.58            | 0.33            | 1.44            |
| Loans   | 0.15            | 0.27            | 0.19            |
| Other financial assets                                      | 1.57            | 0.68            | 3.13            |
| Current tax assets  | -               | 0.23            | -               |
| Other Current Assets  | 29.16           | 10.16           | 14.17           |
| <b>Total current assets</b>                                 | <b>576.13</b>   | <b>489.34</b>   | <b>424.97</b>   |
| Assets held for sale  | 0.62            | 0.62            | 0.62            |
| <b>Total Assets</b>   | <b>1,489.80</b> | <b>1,326.17</b> | <b>1,129.87</b> |
| <b>Non-current liabilities</b>                              |                 |                 |                 |
| <b>Financial liabilities</b>                                |                 |                 |                 |
| Borrowings  | 37.14           | 58.18           | 74.05           |
| Deferred tax liabilities (net)                              | 26.33           | 23.05           | 22.94           |
| <b>Total non-current liabilities</b>                        | <b>63.47</b>    | <b>81.22</b>    | <b>96.99</b>    |
| <b>Current liabilities</b>                                  |                 |                 |                 |
| <b>Financial Liabilities</b>                                |                 |                 |                 |
| Borrowings  | 221.83          | 160.34          | 166.31          |
| Trades Payable - MSME                                       | 5.82            | 6.07            | 5.33            |
| Trade Payables - other than MSME                            | 52.36           | 41.67           | 38.90           |
| Other financial liabilities                                 | 20.74           | 25.99           | 20.49           |
| Other current liabilities                                   | 9.27            | 7.77            | 5.47            |
| Provision   | 3.82            | 3.79            | 2.67            |
| Liabilities for current tax (net)                           | 9.15            | 11.02           | 6.09            |
| <b>Total current liabilities</b>                            | <b>322.99</b>   | <b>256.64</b>   | <b>245.26</b>   |
| <b>Total</b>  | <b>386.46</b>   | <b>337.86</b>   | <b>342.25</b>   |
| Net worth represented by:                                   |                 |                 |                 |
| Equity Share Capital  | 17.90           | 17.90           | 17.90           |
| Other equity  | 1,085.43        | 970.41          | 769.72          |
| <b>Net Worth</b>  | <b>1,103.33</b> | <b>988.31</b>   | <b>787.62</b>   |

## RANKING METHODOLOGY

|           |       |
|-----------|-------|
| WEAK      | ★     |
| NEUTRAL   | ★★    |
| FAIR      | ★★★   |
| GOOD      | ★★★★★ |
| EXCELLENT | ★★★★★ |

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