

Happy Forgings | BUY



Muted performance; Healthy order wins/backlog to drive growth

Happy Forgings' (HFL) 1QFY25 revenue was 3% below JMFe. EBITDA margin at 28.6% was in-line with JMFe. Management indicated that domestic CV / Tractor industry is est. to grow by single-digit during FY25. HFL has been consistently outperforming growth of the underlying CV / Tractor industry led by addition of new customers and increase in wallet share with existing customers. While outlook for EU has turned muted, new order wins in Industrial and PV segments (in both US and EU) are expected to drive growth and diversification. We expect HFL's revenue / EPS momentum to remain strong (17% / 21% CAGR over FY24-27E) led by healthy order backlog. Net cash balance sheet and healthy FCF (INR 4bn+ over FY24-27E) provides comfort. We maintain our BUY rating with Sept'25 TP of INR 1,300 (30x Sept'26E EPS). Any slowdown in underlying CV / Tractor demand remains a key risk to our estimates.

- 1QFY25 – Muted growth performance; margin remains healthy:** HFL reported revenue of INR 3.4bn (+3.5% YoY, flattish QoQ) 2.5% below JMFe. Adjusted for one-off, YoY growth stood at c.7%. EBITDA came-in at INR 976mn (-4%YoY, flattish QoQ). EBITDA margin stood at 28.6% (-220bps YoY, +30bps QoQ), in-line with JMFe. Adjusted PAT stood at INR 638mn (-0.4% YoY, -3% QoQ), 5% below JMFe owing to higher than expected interest and depreciation.
- Operational update:** During 1QFY25, HFL's volumes grew by c.3% YoY to 13,933 MT. Adj. for one-off realisation grew by c.4% YoY to INR245/kg. Contribution of machined products (value-added business) increased from 82% in 1QFY24 to 87% in 1QFY25 (85% in 4Q). HFL continues to outperform the underlying industry. Against MHCV trucks / Tractor production of (1%) / +1%, HFL's CV / Tractor revenue stood at +14% / (6%). Its overall revenue growth of c.7% for 1QFY25 was led by ramp-up of new orders in PV and CV segment. Share of industrials business decreased from 14% in 1QFY24 to 12% in 1QFY25 owing to slowdown in EU Wind segment (down 30-35%). Revenue share of exports stood at 18% in 1QFY25 (21% in 1QFY24).
- Demand outlook:** The Company indicated that domestic CV / Farm segment is expected to grow in single-digit during FY25. And, has guided for continued outperformance over the medium-term led by increase in wallet share from existing customers and addition of new customers, both in India and globally. This is expected to be led by a) ramp-up in industrials / exports (backed by orders) and b) recent order wins in passenger vehicle segment (expects revenue share to increase to 8-10% over next 2yrs).
- Margin outlook:** HFL has guided for a sustainable margin of ~28% going forward. The company indicated that recent order wins in PV segment are for fully-machined components where profitability is similar to current margin level. Rising mix of machined components and positive operating leverage remains additional levers for margin.
- Other highlights:** **1)** Capacity utilisation for 1QFY25 stands at 56% / 85% for Forging and Machining. The company plans to expand machining capacity of 4.5k MT in 2Q and 5k MT in Q3, taking total capacity to 62k MT by FY25 end. It also plans to add 6.3k ton and 10k ton forging press during FY25/26 to cater to PV and farm segment. **2)** Capex guidance for FY25/26 stands at INR 2-2.5bn each. **3)** During the qtr, HFL received

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We acknowledge the support services of Dev Jogani and Neha Ayer in preparation of this report

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,300
Upside/(Downside)	5.2%
Previous Price Target	1,250
Change	4.0%

Key Data – HAPPYFOR IN

Current Market Price	INR1,236
Market cap (bn)	INR116.4/US\$1.4
Free Float	33%
Shares in issue (mn)	94.2
Diluted share (mn)	94.2
3-mon avg daily val (mn)	INR118.0/US\$1.4
52-week range	1,300/813
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-3.3	20.8	0.0
Relative*	-1.5	9.6	0.0

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	11,609	13,432	15,718	19,060	21,732
Sales Growth (%)	35.3	15.7	17.0	21.3	14.0
EBITDA	3,409	3,875	4,571	5,655	6,471
EBITDA Margin (%)	28.5	28.5	28.8	29.3	29.4
Adjusted Net Profit	2,087	2,430	3,012	3,799	4,354
Diluted EPS (INR)	23.3	25.8	32.0	40.3	46.2
Diluted EPS Growth (%)	46.8	10.6	24.0	26.1	14.6
ROIC (%)	19.5	18.5	18.9	20.9	21.1
ROE (%)	23.5	18.7	17.3	18.8	18.4
P/E (x)	53.0	47.9	38.7	30.6	26.7
P/B (x)	11.2	7.2	6.2	5.3	4.5
EV/EBITDA (x)	34.7	29.6	25.0	20.1	17.3
Dividend Yield (%)	0.0	0.3	0.4	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

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Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

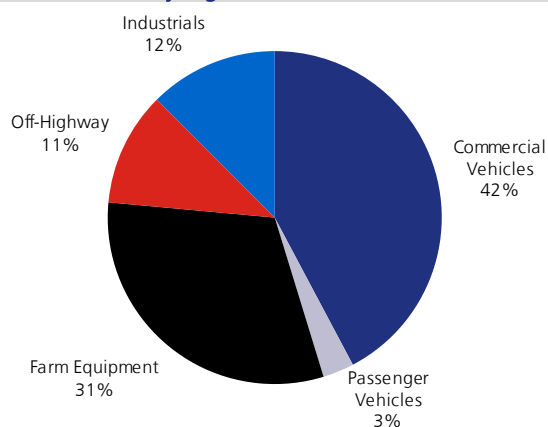
approval from customers for certain orders on which it was working for last 2 years. 4) In the railway segment, HFL is focusing on specialised tenders where realisations and profitability is high. The company has also started working on Defence and Aerospace segments and will update on the same over next 2-3 qtrs.

Exhibit 1. Quarterly financial performance – consolidated

Financial Matrices (INR mn)	1QFY25	1QFY24	% YoY	4QFY24	% QoQ	1QFY25E	Var (%)
Sales	3,415	3,298	3.5	3,433	(0.5)	3,502	(2.5)
RM	1,486	1,418	4.8	1,494	(0.5)	1,523	(2.5)
as a % of sales	43.5	43.0	50bps	43.5	0bps	43.5	0bps
Employee Exp	290	249	16.5	295	(1.8)	298	(2.6)
as a % of sales	8.5	7.5	90bps	8.6	-10bps	8.5	0bps
Other Costs	663	617	7.4	673	(1.6)	683	(3.0)
as a % of sales	19.4	18.7	70bps	19.6	-20bps	19.5	-10bps
Expenditure	2,439	2,284	6.8	2,462	(1.0)	2,504	(2.6)
EBITDA	976	1,015	(3.8)	971	0.5	998	(2.2)
EBITDA Margin (%)	28.6	30.8	-220bps	28.3	30bps	28.5	10bps
Other Income	76	22	252.8	72	6	75	1.4
Interest	14	27	(48.9)	9	59	10	37.4
Depreciation	180	155	16.5	160	12	175	2.9
PBT	858	855	0.4	875	(2)	888	(3.4)
Tax	220	214	2.8	217	2	218	1.2
Tax rate (%)	25.7	25.1		24.8	90bps	24.5	1.2
PAT (Adjusted)	638	640	(0.4)	658	(3.0)	671	(4.8)
PAT Margin (%)	19%	19%	(0.7)	19%	(0.5)	19%	(0.5)
EPS (INR)	6.8	7.2	(5.3)	7.0	(3.0)	7.1	(4.8)

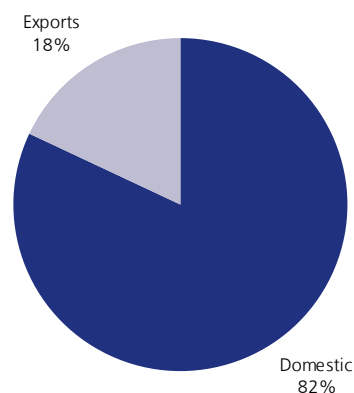
Source: Company, JM Financial

Exhibit 2. Revenue mix by segments



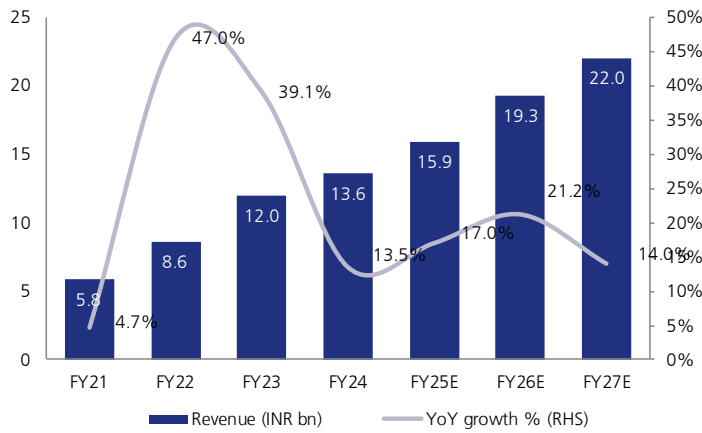
Source: Company, JM Financial

Exhibit 3. Revenue mix by geography



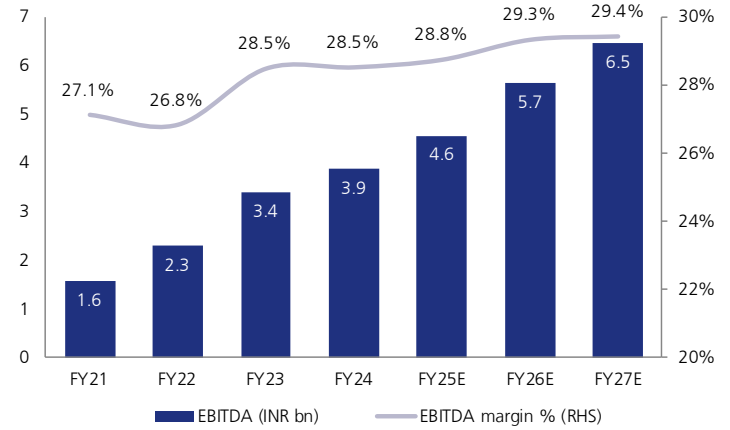
Source: Company, JM Financial

Exhibit 4. Expect revenue to grow at CAGR of 21% over FY24-26E



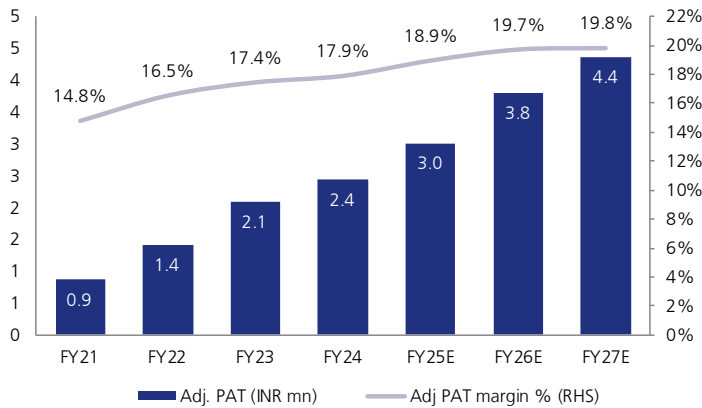
Source: Company, JM Financial

Exhibit 5. Expect EBITDAM to expand by c.100bps over FY24-26E



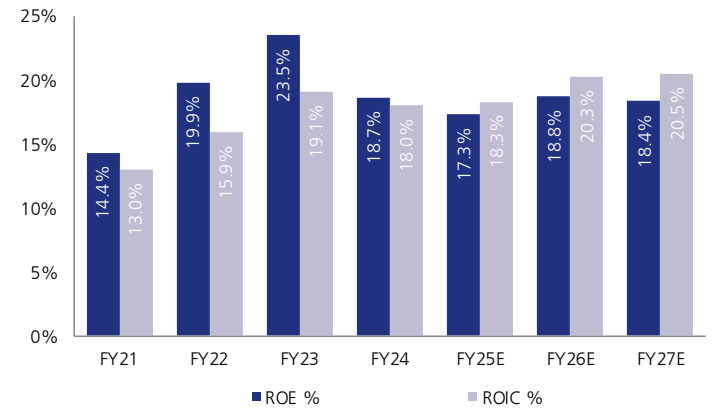
Source: Company, JM Financial

Exhibit 6. Expect PAT to grow at c.28% CAGR over FY24-26E



Source: Company, JM Financial

Exhibit 7. Healthy return ratios; net cash balance sheet



Source: Company, JM Financial

Exhibit 8. Change in estimates

Happy Forgings	New assumption			Old assumption			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	15,897	19,272	21,979	16,500	19,842	NA	-3.7%	-2.9%	NA
EBITDA (INR mn)	4,571	5,655	6,471	4,786	5,862	NA	-4.5%	-3.5%	NA
EBITDAM (%)	28.8	29.3	29.4	29.0	29.5	NA	-25bps	-20bps	NA
PAT (INR mn)	3,012	3,799	4,354	3,172	3,965	NA	-5.0%	-4.2%	NA
EPS (INR)	32.0	40.3	46.2	33.7	42.1	NA	-5.0%	-4.2%	NA

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	11,609	13,432	15,718	19,060	21,732	
Sales Growth	35.3%	15.7%	17.0%	21.3%	14.0%	
Other Operating Income	356	150	179	212	246	
Total Revenue	11,965	13,582	15,897	19,272	21,979	
Cost of Goods Sold/Op. Exp	5,510	5,966	6,951	8,407	9,588	
Personnel Cost	878	1,145	1,308	1,530	1,720	
Other Expenses	2,168	2,596	3,067	3,680	4,200	
EBITDA	3,409	3,875	4,571	5,655	6,471	
EBITDA Margin	28.5%	28.5%	28.8%	29.3%	29.4%	
EBITDA Growth	47.7%	13.7%	17.9%	23.7%	14.4%	
Depn. & Amort.	542	647	721	801	925	
EBIT	2,867	3,228	3,850	4,854	5,545	
Other Income	57	134	270	308	338	
Finance Cost	125	118	98	89	70	
PBT before Excep. & Forex	2,800	3,244	4,023	5,073	5,814	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,800	3,244	4,023	5,073	5,814	
Taxes	713	814	1,010	1,274	1,461	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	2,087	2,430	3,012	3,799	4,354	
Adjusted Net Profit	2,087	2,430	3,012	3,799	4,354	
Net Margin	17.4%	17.9%	18.9%	19.7%	19.8%	
Diluted Share Cap. (mn)	89.5	94.2	94.2	94.2	94.2	
Diluted EPS (INR)	23.3	25.8	32.0	40.3	46.2	
Diluted EPS Growth	46.8%	10.6%	24.0%	26.1%	14.6%	
Total Dividend + Tax	0	377	471	612	612	
Dividend Per Share (INR)	0.0	4.0	5.0	6.5	6.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	2,800	3,244	4,023	5,073	5,814	
Depn. & Amort.	542	647	721	801	925	
Net Interest Exp. / Inc. (-)	119	118	98	89	70	
Inc (-) / Dec in WCcap.	-779	-1,230	-566	-1,282	-1,017	
Others	51	-50	-196	-228	-252	
Taxes Paid	-638	-839	-1,010	-1,274	-1,461	
Operating Cash Flow	2,094	1,890	3,069	3,179	4,080	
Capex	-1,745	-1,941	-2,000	-2,000	-2,000	
Free Cash Flow	350	-51	1,069	1,179	2,080	
Inc (-) / Dec in Investments	4	-2,765	-312	-743	-41	
Others	16	13	196	228	252	
Investing Cash Flow	-1,725	-4,693	-2,116	-2,514	-1,789	
Inc / Dec (-) in Capital	0	3,810	0	0	0	
Dividend + Tax thereon	0	-116	-471	-612	-612	
Inc / Dec (-) in Loans	-252	-755	-250	0	-500	
Others	-119	-130	-98	-89	-70	
Financing Cash Flow	-370	2,809	-819	-701	-1,182	
Inc / Dec (-) in Cash	0	6	133	-37	1,109	
Opening Cash Balance	0	0	6	140	103	
Closing Cash Balance	0	6	140	103	1,212	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	9,883	16,125	18,666	21,853	25,594	
Share Capital	179	188	188	188	188	
Reserves & Surplus	9,704	15,937	18,478	21,664	25,405	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,185	1,430	1,180	1,180	680	
Def. Tax Liab. / Assets (-)	230	316	316	316	316	
Total - Equity & Liab.	12,299	17,871	20,162	23,349	26,590	
Net Fixed Assets	7,532	8,704	9,983	11,181	12,256	
Gross Fixed Assets	8,624	9,923	11,923	13,923	15,923	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,839	2,487	3,208	4,009	4,934	
Capital WIP	748	1,267	1,267	1,267	1,267	
Investments	318	3,208	3,520	4,263	4,304	
Current Assets	5,411	6,948	8,127	9,633	12,010	
Inventories	1,696	2,242	2,624	3,181	3,627	
Sundry Debtors	3,081	3,569	4,134	5,012	5,715	
Cash & Bank Balances	0	6	140	103	1,212	
Loans & Advances	0	0	0	0	0	
Other Current Assets	635	1,131	1,230	1,338	1,455	
Current Liab. & Prov.	963	988	1,468	1,729	1,980	
Current Liabilities	477	555	685	829	945	
Provisions & Others	486	433	782	900	1,035	
Net Current Assets	4,448	5,960	6,659	7,905	10,030	
Total - Assets	12,299	17,871	20,162	23,349	26,590	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		17.4%	17.9%	18.9%	19.7%	19.8%
Asset Turnover (x)		1.0	0.9	0.8	0.9	0.9
Leverage Factor (x)		1.3	1.2	1.1	1.1	1.1
RoE		23.5%	18.7%	17.3%	18.8%	18.4%

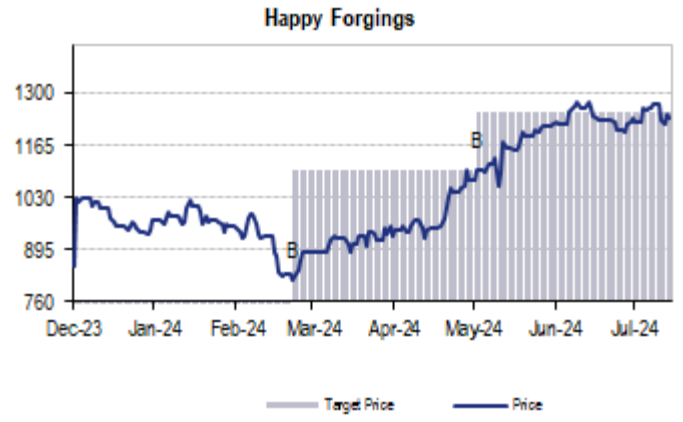
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		110.4	171.2	198.1	232.0	271.7
ROIC		19.5%	18.5%	18.9%	20.9%	21.1%
ROE		23.5%	18.7%	17.3%	18.8%	18.4%
Net Debt/Equity (x)		0.2	-0.1	-0.1	-0.1	-0.2
P/E (x)		53.0	47.9	38.7	30.6	26.7
P/B (x)		11.2	7.2	6.2	5.3	4.5
EV/EBITDA (x)		34.7	29.6	25.0	20.1	17.3
EV/Sales (x)		9.9	8.5	7.2	5.9	5.1
Debtor days		94	96	95	95	95
Inventory days		52	60	60	60	60
Creditor days		20	21	22	22	22

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
18-Mar-24	Buy	1,100	
27-May-24	Buy	1,250	13.6

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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