

March 20, 2024

COMPANY UPDATE | Sector: Automobile

Happy Forgings Ltd

Expanding product spectrum augurs well

Highlights of Happy Forgings (HFL) plant visit and management interaction

1) Sound engineering capabilities, as reflected in HFL's rapid diversification and delivery of complex forged/ machined components to auto/industrial segments, has fetched significant market share gains. 2) Focus on complex/critical parts and recent product additions will open up new opportunities: capability step-up from addition of 14k ton press line (in 3QFY23) helped expand product offerings from up to 90kgs to complex parts up to 250kg. Ongoing Brownfield expansion for 3.1k ton (dedicated to PV), 6.3k ton and 10k ton press lines will help rebalance production and augment further capacity. 3) New order wins in PV and industrials will help de-risk dependence on CV/tractors (~73% of revenues). Further, HFL intends to work on light weight forgings to support growth. 4) Structural demand drivers like opening of India-centric global supply chain and low revenue share of industrials and exports (vs peers) should help outperformance. Street has built in standalone revenue/EBITDA/Adj.PAT CAGR of 21%/24%/30.7%. Although execution and continued revenue diversification are critical success factors, we believe valuations at 24.2x/18.9x FY25/26 bloom standalone EPS partially price in the positives. Not rated.

A closer look at key takeaways

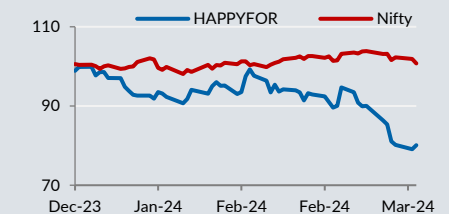
- **Sound engineering capabilities help rapid revenue diversification and market share gains:** HFL's management and engineering capabilities have helped it quickly diversify revenue base in 9MFY24 (YoY) as 1) contribution of machined products increased to 84% (vs 78%), 2) share of industrials and exports increased to 13% (vs 4%) and to 20% (vs 13%). ~47%, revenues are from Crankshafts, wherein HFL has large market share of ~45%/35% in CVs/tractors, given high tolerances of product design and manufacturing capabilities, causing high entry barrier and limited competition.
- **Focus on critical parts and recent products addition to open up opportunities:** HFL is looking to add capacity in forging (brownfield expansion is underway for 6.3k ton press by 2QFY25 and 10k ton press line) and machining owing to high demand. Machining capacity utilization is (~85%) 50k tons currently; it is expected to move up to 61k-62k tons in phases (delayed by couple of months due to Red Sea issue). **Front axle beam** (new product) supplies are expected to start soon, and target is ~5k beams per month by end of FY25E (to start with 1-2k units p. m. and ramp up subsequently), vis-à-vis total industry demand of ~30k beams p.m.
- **New order wins in PV and industrials to help de-risk dependence on CV/tractors:** - HFL expects PV segment to contribute 5-6% by FY25E and >10% of the overall revenues in 3-4 years, led by ramp-up with existing customer (crankshaft and suspension parts) and new order win from North American customer, slated to start in FY26E. HFL is setting up 3.1k tons press line dedicated to PV segment while ramping-up SUV crankshaft supply to domestic customers, where it has 34-35% share of business for a single platform.
- **Opening up of global supply chain for India, a structural demand driver:** With installation of 14k tons press line (in 3QFY23), HFL experienced a major influx of new order wins from the Industrial segment. The current utilization of this press line is 35-40% and it plans to ramp it up to 75-80% over 12-16 months on the back of new order wins. HFL has made significant progress in exports as well by cross-selling products and expanding into new locations. HFL expect the share of exports in revenues to increase to >30% over 2-3 years (vs ~8%/20% in FY21/9MFY24).

Reco	:	NOT RATED
CMP	:	Rs 831
Target Price	:	NA
Potential Return	:	NA

Stock data (as on March 20, 2024)

Nifty	21,859
52 Week h/l (Rs)	1088 / 813
Market cap (Rs/USD mn)	78,290 / 943
Outstanding Shares (mn)	94.2
6m Avg t/o (Rs mn):	N/A
Div yield (%):	0.1
Bloomberg code:	HAAPYFOR IN
NSE code:	HAPPYFORGE

Stock performance



	1M	3M	1Y
Absolute return	(14%)	N/A	N/A

Shareholding pattern (As of Dec'23)

Promoter	78.6%
FII+DII	7.9%
Others	13.5%

Financial Summary

Y/E DEC (Rs mn)	FY21	FY22	FY23
Sales	5850	8600	11965
EBITDA	1587	2309	3409
Adj. PAT	864	1423	2087
Adj. EPS (INR)	9.7	15.9	23.3
EPS Gr. (%)	7.2	64.6	46.7
BV/Sh. (INR)	144	88	110
RoE (%)	14.4	19.9	23.5
RoCE (%)	11.6	14.0	17.7
Payout (%)	-	-	-
P/E (x)	49.3	59.9	40.9
P/BV (x)	6.6	10.8	8.6
EV/EBITDA (x)	54.5	38.0	25.7
Div. Yield (%)	0.0	0.0	0.0

DEEP SHAH

Lead Analyst

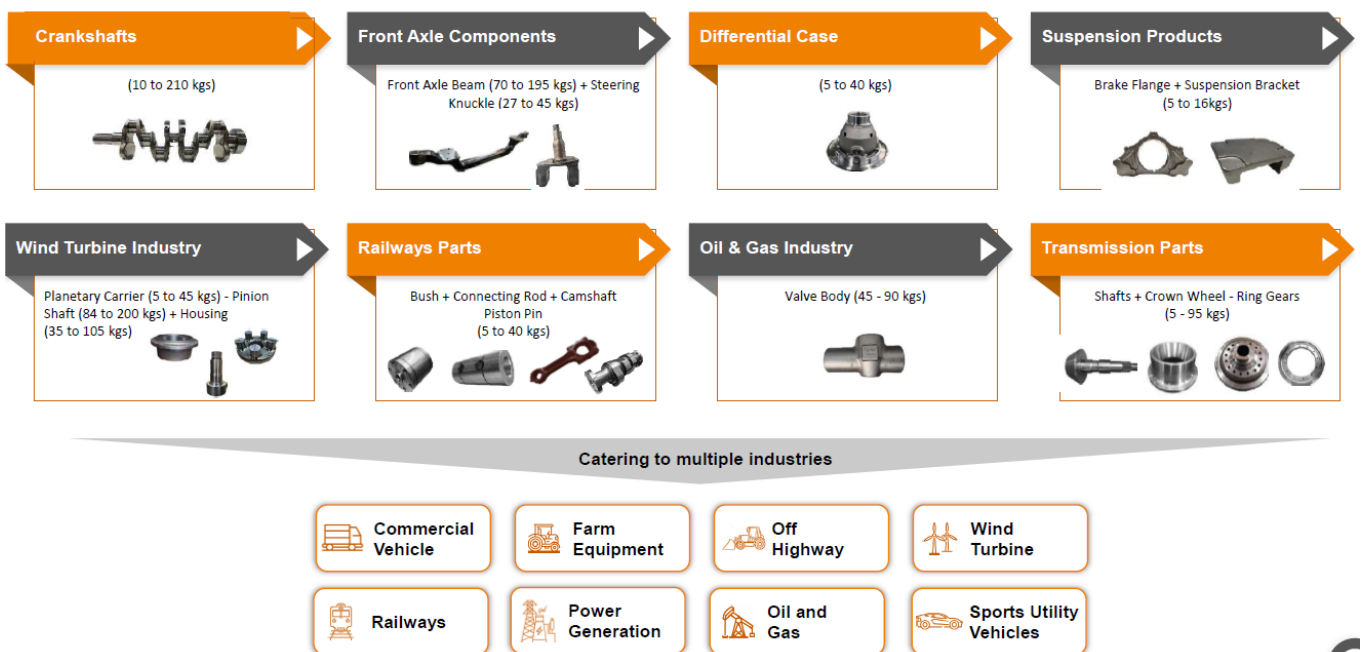
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Other takeaways:

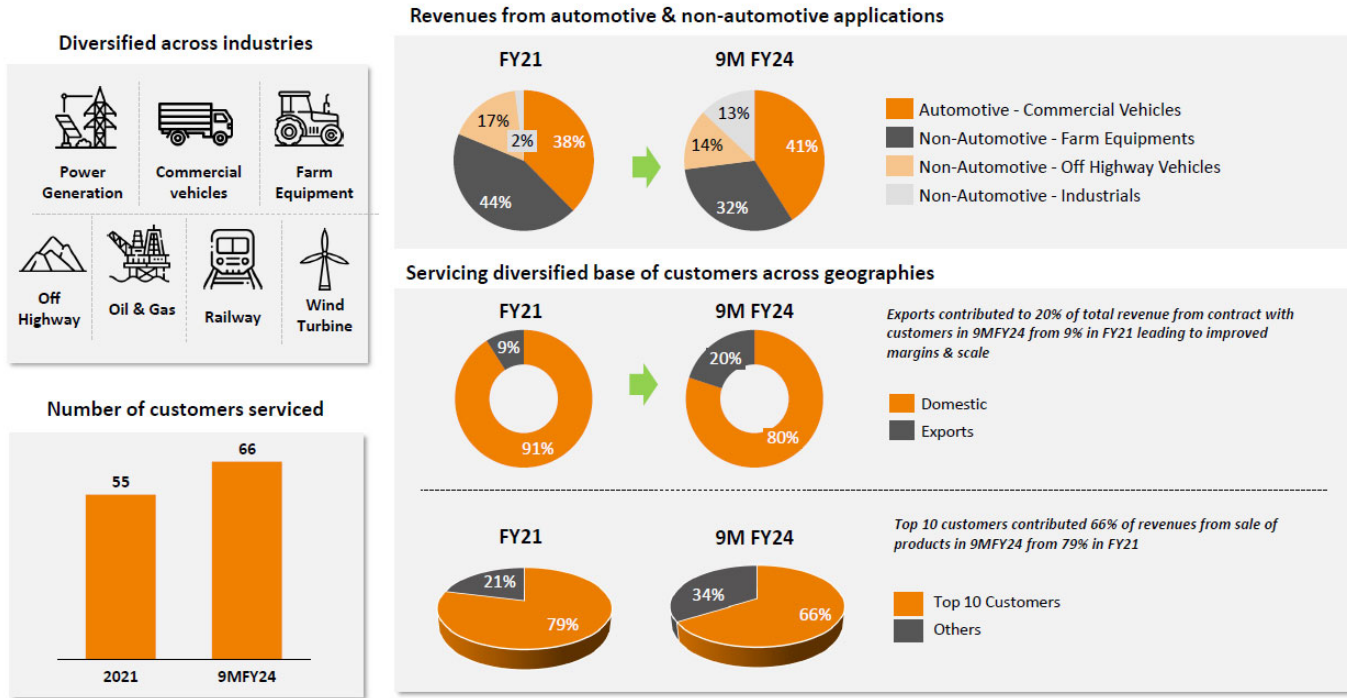
- **Growth guidance:** HFL expects revenues of Rs20-23b (vs ~Rs10.2b in 9MFY24) in 2-3 years. This will be led by organic growth; inorganic growth would be over and above the started target. HFL expects EBITDA per kg to stay stable.
- **Crankshaft: PV has high margins & capex over other segments** - share of business for SUV with a leading domestic customer is 34-35% (for single platform). Ramp up of supply to existing platform and proposed multiple platforms will eye further share of business.
- **Light weight forgings** – they are working on other alloys but not only Aluminum. (India uses Aluminum castings and not Aluminum forging) Additional investment will be needed only for heating treatments, press will remain the same in case opportunity arises for Aluminum light weighting components.
- **No plans to enter connecting rods business**, given high competitive intensity.
- **Exports** forms ~20% (of which 8-9% is deemed exports). Expect exports to be >30% over 2-3 years (vs ~8%/20% in FY21/9MFY24). Indicated exports margins are 4-5% more than domestic supply.

Exhibit 1: HFL's product offerings for base business at par with peers



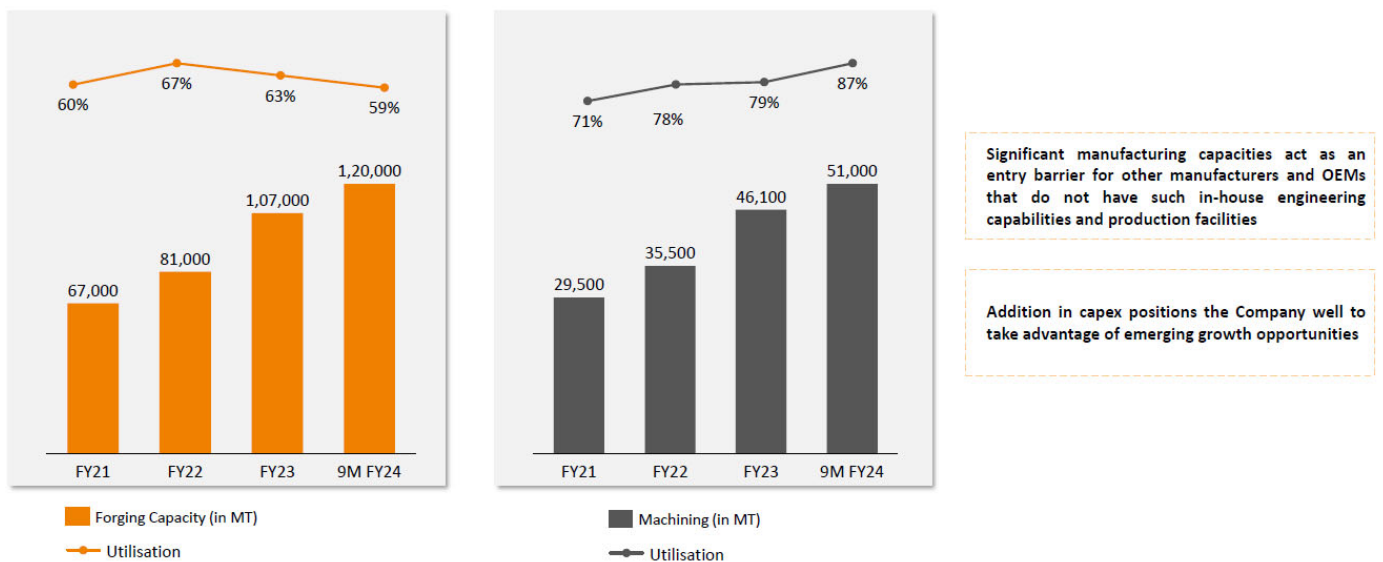
Source- Company, YES Sec

Exhibit 2: Diversification underway led by expanding focus on non-auto & exports segments



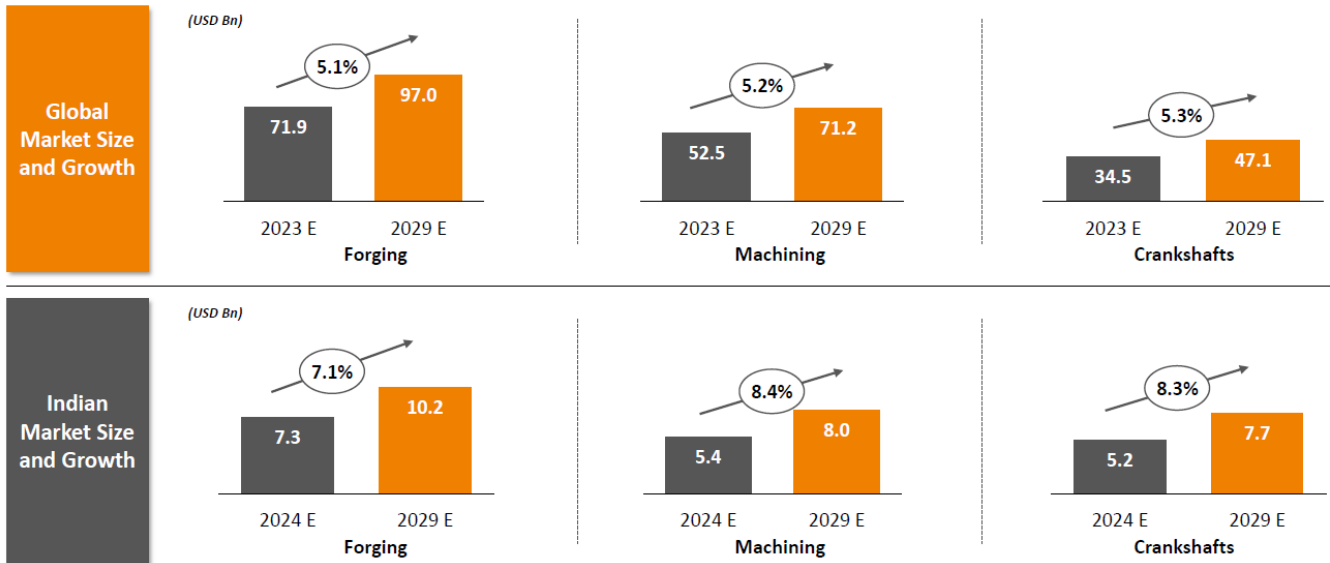
Source- Company, YES Sec

Exhibit 3: Continued capacity expansion to drive growth



Source- Company, YES Sec

Exhibit 4: Global growth opportunities stay high for base business



Source- Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	1HFY24
Equity Share Capital	89	90	179	179	179
Eq. Share Warrants & App. Money	0	0	0	0	0
Preference Capital	0	0	0	0	0
Total Reserves	5,495	6,362	7,697	9,704	10,854
Net Worth	5,585	6,452	7,876	9,883	11,033
Minority Interest	0	0	0	0	0
Total Loans	1,049	1,535	2,404	2,185	2,590
Deferred Tax Liabilities	210	202	229	230	263
Capital Employed	6,845	8,188	10,509	12,299	13,886
Gross Block	3,322	5,063	5,839	8,569	9,076
Less: Accum. Deprn.	569	918	1,293	1,800	2,115
Net Fixed Assets	2,753	4,145	4,546	6,770	6,962
Goodwill	10	11	16	15	22
Capital WIP	1,084	394	2,123	748	1,015
Total Investments	0	0	4	0	0
Curr. Assets, Loans&Adv.	2,693	3,374	4,256	4,900	5,768
Inventory	757	1,216	1,840	1,696	2,210
Account Receivables	1,379	1,658	2,220	3,081	3,230
Cash and Bank Balance	558	278	15	3	12
Loans and Advances	0	1	2	3	2
Other Current Assets	0	222	179	117	313
Curr. Liability & Prov.	786	576	790	963	1,012
Account Payables	359	379	442	477	582
Other Current Liabilities	421	178	321	448	392
Provisions	6	19	27	38	38
Net Current Assets	1,907	2,798	3,466	3,937	4,756
Deferred Tax assets	0	0	0	0	0
Other Non Current Assets	1,092	840	354	830	1,131
Appl. of Funds	6,845	8,188	10,509	12,299	13,886

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	9MFY24
Total Income from Operations	5,581	5,850	8,600	11,965	10,149
Change (%)		4.8	47.0	39.1	13.5
Raw Materials	2,345	2,573	4,358	5,477	4,851
Employees Cost	491	490	687	878	849
Other Expenses	1,176	1,256	1,721	2,168	1,923
Total Expenditure	4,156	4,262	6,292	8,556	7,245
% of Sales	74.5	72.9	73.2	71.5	71.4
EBITDA	1,424	1,587	2,309	3,409	2,904
Margin (%)	25.5	27.1	26.8	28.5	28.6
Depreciation	284	358	377	542	487
EBIT	1,140	1,230	1,931	2,868	2,417
Intrest Charges	251	118	72	125	109
Other Income	68	59	61	57	62
PBT before share of associate	958	1,171	1,920	2,800	2,369
Extraordinary Exp	0	0	0	0	0
PBT after share of associate	958	1,171	1,920	2,800	2,369
Total Tax	159	306	498	713	597
Tax Rate (%)	16.6	26.2	25.9	25.5	25.2
Minority Interest	-	-	-	-	-
Reported PAT	799	864	1,423	2,087	1,772
Adjusted PAT	799	864	1,423	2,087	1,772
Change (%)		8.1	64.6	46.7	12.2
Margin (%)	14.3	14.8	16.5	17.4	17.5

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	1HFY24
OP/(Loss) before Tax	965	1,171	1,920	2,800	1,593
Depreciation	284	358	377	542	317
Interest & Finance Charges	213	75	64	119	59
Direct Taxes Paid	(249)	(339)	(431)	(638)	(402)
(Inc)/Dec in WC	473	(825)	(1,088)	(779)	(765)
CF from Operations	1,686	440	843	2,044	801
Others	1	59	(40)	51	3
CF from Operating incl EO	1,687	499	803	2,095	804
(Inc)/Dec in FA	(1,010)	(917)	(1,908)	(1,745)	(1,011)
Free Cash Flow	677	(418)	(1,105)	350	(207)
(Pur)/Sale of Investments	305	0	0	0	(3)
Others	(483)	330	252	20	4
CF from Investments	(1,189)	(587)	(1,657)	(1,725)	(1,010)
Buyback of shares	0	0	0	0	0
Inc/(Dec) in Debt	(383)	351	893	(251)	405
Interest Paid	(117)	(254)	(68)	(119)	(77)
Dividend Paid	0	0	0	0	(116)
Others	0	0	0	0	0
CF from Fin. Activity	(500)	97	825	(370)	212
Inc/Dec of Cash	(2)	8	(29)	0	6
Opening Balance	22	20	29	0	0
Bank Balance	537	249	14	3	0
Closing Balance	558	278	15	3	6

Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	1HFY24
Basic (INR)					
EPS	17.9	19.3	15.9	23.3	13.3
Cash EPS	24.2	27.3	20.1	29.4	16.9
BV/Share	124.8	144.2	88.0	110.4	123.3
DPS	0.0	0.0	0.0	0.0	1.3
Payout (%)	5.2	0.0	0.0	0.0	9.8
Valuation (x)					
P/E	53.3	49.3	59.9	40.9	71.5
Cash P/E	39.4	34.9	47.4	32.4	56.5
P/BV	7.6	6.6	10.8	8.6	7.7
EV/Sales	15.2	14.8	10.2	7.3	13.1
EV/EBITDA	59.7	54.5	38.0	25.7	45.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1
FCF per share	15.1	-9.3	-12.4	3.9	-2.3
Return Ratios (%)					
RoE	14.3	14.4	19.9	23.5	11.9
RoCE (post-tax)	14.7	11.6	14.0	17.7	9.0
RoIC	18.3	12.1	17.1	18.5	9.5
Working Capital Ratios					
Fixed Asset Turnover (x)	1.7	1.2	1.5	1.4	0.7
Asset Turnover (x)	0.8	0.7	0.8	1.0	0.5
Inventory (Days)	49	76	78	52	120
Debtor (Days)	90	103	94	94	175
Creditor (Days)	23	24	19	15	32
Leverage Ratio (x)					
Current Ratio	3.4	5.9	5.4	5.1	5.7
Interest Cover Ratio	4.6	10.4	27.0	23.0	22.9
Net Debt/Equity	0.1	0.2	0.3	0.2	0.2

Source: Company, YES Sec

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