

Harsha Engineers International | BUY



Domestic outlook positive, export to recover from Q2

Harsha Engineers (HARSHA) reported mix bag of 1QFY25 quarterly number with consol. revenue decline on 1.4% YoY to INR 3.4bn (JMFe INR 4bn) and EBITDA margin expansion of 410bps YoY to 16.1%. Revenue in India grew 8.7% YoY to INR 1.3bn. Revenue outside India declined 6.8% YoY to INR 2bn (exports declined 5.7% YoY to INR 1.2bn). Revenue from International subs was down 8.3% YoY to INR 841mn. EBITDA grew 31.9% to INR 552mn. EBITDA margin expansion was mainly due to reduction in raw material price, which is not yet pass on to customer followed by strong growth in the Bushing business; continued positive contributions coming from Japan based customers & stampings, as well as increased off take from key domestic customers for existing as well as new projects. PAT grew 46.7% YoY to INR 361mn (JMFe INR 377mn), mainly due to better operating performance and higher other income (up 97.5% YoY to INR 79mn). We expect earning CAGR of c.34% over FY24-26E and maintain BUY with a target price of INR 660

- Domestic demand continues to be strong:** Overall Indian bearing demand stands strong, primarily driven by strong economic outlook and China +1 strategy by customer resulting in few customer shifting their manufacturing facility in India. Large size bearing cages demand continued to be muted, largely on account of overall continued softness in demand from industrial segment.
- Bronze Bushing on growth path:** Reported revenue of INR 200mn, from existing customer in manufacturing windmill gear box segment. Given the healthy demand in windmill segment, management expects revenue from bushing segment to reach INR 800mn in FY25. At current capacity bushing can generate peak rev of INR 1.2bn. Stamping business reported revenue of INR 140mn in 1QFY25.
- China performed well; Romania still impacted:** in1QFY25 China witnessed an improvement in performance with positive bottom line, while Romania continues to be under pressure. Higher demand in Chinese market resulted in improved capacity utilisation level of more than 55%. While Romania demand still continues to be sluggish resulting in capacity utilisation to be lower than 50%. Management has taken several steps to improve performance such as interaction with customers, cost reduction, improving product mix etc. Hence both subsidiary put together is expected to report marginal negative bottom line to break even in FY25.
- Maintain BUY with a TP of INR 660:** We expect revenue/earning CAGR of 15%/34% over FY24-26E on the back of (1) strong demand outlook in the domestic market, revival in China and then Europe, (2) customer increasing share of localisation, (3) strong opportunities in new product segment like stamping components and Bronze bushing, (4) Increasing wallet share with existing customers along with new customer addition, (5) high profitability at overseas. HARSHA currently trades at PE of 32x/26x on FY25/FY26E. We value HEIL at 30x (earlier 25x) on FY26 EPS to arrive at a target price of INR 660, upside of 16% from CMP and hence we maintain BUY.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	660
Upside/(Downside)	15.6%
Previous Price Target	515
Change	28.2%

Key Data – HARSHA IN

Current Market Price	INR571
Market cap (bn)	INR52.0/US\$0.6
Free Float	23%
Shares in issue (mn)	91.0
Diluted share (mn)	91.0
3-mon avg daily val (mn)	INR178.1/US\$2.1
52-week range	614/360
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	0.0	43.8	43.9
Relative*	0.6	29.3	19.2

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	13,215	13,640	13,923	15,714	18,289
Sales Growth (%)	51.2	3.2	2.1	12.9	16.4
EBITDA	1,690	1,893	1,714	2,456	2,945
EBITDA Margin (%)	12.8	13.9	12.3	15.6	16.1
Adjusted Net Profit	920	1,232	1,114	1,605	1,988
Diluted EPS (INR)	10.1	13.5	12.2	17.6	21.8
Diluted EPS Growth (%)	11.2	34.0	-9.6	44.0	23.8
ROIC (%)	12.2	11.4	8.3	12.0	13.8
ROE (%)	19.4	15.5	9.9	12.8	13.8
P/E (x)	56.5	42.2	46.6	32.4	26.1
P/B (x)	10.0	4.8	4.4	3.9	3.4
EV/EBITDA (x)	32.8	27.7	30.6	20.8	17.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024

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Exhibit 1. Change in Estimates

Particulars (INR Mn)	Revised Estimates		Previous Estimates			% chg	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	
Net Sales	15,714	18,289	15,774	18,218	-0.4	0.4	
EBITDA	2,456	2,945	2,287	2,800	7.4	5.2	
EBITDA Margin (%)	15.6	16.1	14.5	15.4	110bps	70bps	
Adj PAT	1,605	1,988	1,457	1,871	10.1	6.2	
Adj EPS (INR)	17.6	21.8	16.0	20.6	10.1	6.2	

Source: JM Financial, Company

Exhibit 2. Quarterly Performance- Consolidated

Y/E March (INR mn)	1QFY24	1QFY25	YoY (%)	4QFY24	QoQ (%)	1QFY25E	Var (%)
Net Sales	3,480	3,432	-1.4	3,804	-9.8	3,969	-13.5
Expenditure	3,061	2,880	-5.9	3,259	-11.6	3,393	-15.1
EBITDA	418	552	31.9	545	1.2	577	-4.3
EBITDA (%)	12.0	16.1	410bps	14.3	170bps	14.5	160bps
Other income	40	79	97.5	78	1.9	60	31.7
Depreciation	96	102	6.8	100	2.3	100	2.1
EBIT	363	529	45.8	523	1.1	537	-1.5
Interest	26	26	-2.3	28	-9.5	30	-14.7
PBT before Eol	336	503	49.5	495	1.7	507	-0.7
Eol	0	0		0		0	
PBT	336	503	49.5	495	1.7	507	-0.7
Tax	91	143	57.3	127	12.2	129	10.3
Tax rate (%)	26.9	28.3		25.7		25.5	
PAT before M/SA	246	361	46.7	368	-2.0	377	-4.5
Minority Interest							
PAT after M/SA	246	361	46.7	368	-2.0	377	-4.5
Reported EPS (INR)	2.7	4.0	46.7	4.0	-2.0	4.1	-4.5
Adj PAT	246	361	46.7	368	-2.0	377	-4.5
Adj EPS (INR)	2.7	4.0	46.7	4.0	-2.0	4.1	-4.5

Source: Company, JM Financial

Exhibit 3. Cost Breakup

Y/E March (INR mn)	1QFY24	1QFY25	YoY (%)	4QFY24	QoQ (%)	1QFY25E	Var (%)
COGS	1,921	1,672	-13.0	2,127	-21.4	2,223	-24.8
as a % of sales	55.2	48.7	-650bps	55.9	-720bps	56.0	-730bps
Staff Cost	434	464	6.9	429	8.2	435	6.6
as a % of sales	12.5	13.5	100bps	11.3	220bps	11.0	260bps
Other Expenditure	706	744	5.3	703	5.7	735	1.2
as a % of sales	20.3	21.7	140bps	18.5	320bps	18.5	320bps

Source: Company, JM Financial

Exhibit 4. Segmental Performance

Revenue (INR mn)	1QFY24	1QFY25	YoY (%)	4QFY24	QoQ (%)
Engineering (Consolidated)	3,310	3,266	-1.3%	3,206	1.9%
% of sales	95.1%	95.2%		84.3%	
Engineering (Standalone-India)	2,392	2,437	1.9%	2378	2.5%
% of sales	72.3%	74.6%		74.2%	
Engineering (derived-Subsidiaries (Romania and China))	918	829	-9.7%	829	0.1%
% of sales	27.7%	25.4%		25.8%	
Solar EPC	170	166	-2.4%	598	-72.3%
% of sales	4.9%	4.8%		15.7%	
Total	3,480	3,432	-1.4%	3,804	-9.8%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	13,215	13,640	13,923	15,714	18,289
Sales Growth	51.2%	3.2%	2.1%	12.9%	16.4%
Other Operating Income	0	0	0	0	0
Total Revenue	13,215	13,640	13,923	15,714	18,289
Cost of Goods Sold/Op. Exp	7,397	7,359	7,772	8,093	9,602
Personnel Cost	1,452	1,562	1,691	1,944	2,158
Other Expenses	2,676	2,827	2,747	3,221	3,585
EBITDA	1,690	1,893	1,714	2,456	2,945
EBITDA Margin	12.8%	13.9%	12.3%	15.6%	16.1%
EBITDA Growth	38.7%	12.0%	-9.5%	43.3%	19.9%
Depn. & Amort.	354	361	393	443	478
EBIT	1,336	1,532	1,320	2,012	2,466
Other Income	175	298	295	308	361
Finance Cost	246	158	108	146	134
PBT before Excep. & Forex	1,266	1,671	1,508	2,175	2,693
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,266	1,671	1,508	2,175	2,693
Taxes	346	438	393	570	706
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	920	1,232	1,114	1,605	1,988
Adjusted Net Profit	920	1,232	1,114	1,605	1,988
Net Margin	7.0%	9.0%	8.0%	10.2%	10.9%
Diluted Share Cap. (mn)	91.0	91.0	91.0	91.0	91.0
Diluted EPS (INR)	10.1	13.5	12.2	17.6	21.8
Diluted EPS Growth	11.2%	34.0%	-9.6%	44.0%	23.8%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	1,267	1,671	1,508	2,175	2,693
Depn. & Amort.	354	361	393	443	478
Net Interest Exp. / Inc. (-)	230	85	-165	-162	-227
Inc (-) / Dec in WCap.	-1,215	-307	-375	-145	-952
Others	40	-78	0	0	0
Taxes Paid	-311	-375	-366	-570	-706
Operating Cash Flow	365	1,358	994	1,741	1,287
Capex	-467	-741	-739	-600	-749
Free Cash Flow	-102	617	255	1,141	538
Inc (-) / Dec in Investments	-51	-838	-399	0	0
Others	0	0	0	0	0
Investing Cash Flow	-518	-1,578	-1,138	-600	-749
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	-91	0	0	0
Inc / Dec (-) in Loans	283	-50	-45	-190	-190
Others	-190	-114	165	162	227
Financing Cash Flow	93	-254	120	-28	37
Inc / Dec (-) in Cash	-60	-474	-24	1,114	575
Opening Cash Balance	453	393	1,336	1,216	2,330
Closing Cash Balance	393	451	1,312	2,330	2,905

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	5,218	10,717	11,753	13,358	15,346
Share Capital	772	910	910	910	910
Reserves & Surplus	4,446	9,807	10,842	12,448	14,435
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	3,785	1,769	1,724	1,534	1,344
Def. Tax Liab. / Assets (-)	40	66	77	77	77
Total - Equity & Liab.	9,043	12,553	13,554	14,969	16,766
Net Fixed Assets	2,868	3,265	3,612	3,768	4,038
Gross Fixed Assets	7,232	7,864	8,568	9,168	9,968
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	4,385	4,715	5,108	5,552	6,030
Capital WIP	21	116	152	152	100
Investments	65	1,942	2,341	2,341	2,341
Current Assets	8,651	9,244	9,714	12,519	14,646
Inventories	3,757	3,769	3,537	4,521	5,261
Sundry Debtors	2,828	2,804	3,189	3,444	4,009
Cash & Bank Balances	393	1,336	1,216	2,330	2,905
Loans & Advances	244	105	395	215	251
Other Current Assets	1,430	1,231	1,377	2,009	2,221
Current Liab. & Prov.	2,541	1,898	2,113	3,659	4,259
Current Liabilities	1,828	1,187	1,329	2,153	2,505
Provisions & Others	713	712	783	1,507	1,754
Net Current Assets	6,110	7,346	7,601	8,860	10,387
Total - Assets	9,043	12,553	13,554	14,969	16,766

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	7.0%	9.0%	8.0%	10.2%	10.9%
Asset Turnover (x)	1.6	1.3	1.1	1.1	1.2
Leverage Factor (x)	1.8	1.4	1.2	1.1	1.1
RoE	19.4%	15.5%	9.9%	12.8%	13.8%

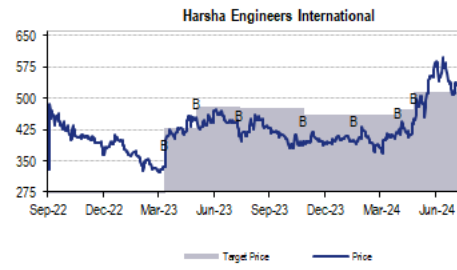
Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	57.3	117.8	129.2	146.8	168.6
ROIC	12.2%	11.4%	8.3%	12.0%	13.8%
ROE	19.4%	15.5%	9.9%	12.8%	13.8%
Net Debt/Equity (x)	0.7	0.0	0.0	-0.1	-0.1
P/E (x)	56.5	42.2	46.6	32.4	26.1
P/B (x)	10.0	4.8	4.4	3.9	3.4
EV/EBITDA (x)	32.8	27.7	30.6	20.8	17.1
EV/Sales (x)	4.2	3.8	3.8	3.3	2.8
Debtor days	78	75	84	80	80
Inventory days	104	101	93	105	105
Creditor days	58	37	40	59	60

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
3-Apr-23	Buy	430	
26-May-23	Buy	480	11.6
4-Aug-23	Buy	475	-1.0
17-Nov-23	Buy	460	-3.2
9-Feb-24	Buy	460	0.0
21-Apr-24	Buy	472	2.5
17-May-24	Buy	515	9.2

Recommendation History



APPENDIX I

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