

Happy Forgings | BUY

Margin above estimate; Global demand weakness weighs on outlook

In 4QFY25, Happy Forgings (HFL) reported EBITDA margin of 29.1%, 60bps above JMFe, primarily due to lower RM cost. The domestic CV segment was impacted by lower MHCV production, and is expected to recover in FY26, supported by new infrastructure investments. Tractor segment is likely to sustain its positive momentum going ahead. Industrial and PV segment continued perform well, with management expecting their combined revenue share to exceed 25% in the medium-term. However, global demand remains muted owing to macroeconomic headwinds and tariff-related uncertainties. Margins are likely to remain under pressure due to weak export demand and initial ramp-up cost related to new facilities. We have cut our revenue growth estimates by 12% / 10% and EPS estimates by 17% / 16% for FY26E / FY27E from our previous estimates. We maintain BUY with Mar'27 TP of INR 1,000 (29x FY27E). Pick-up in exports (CVs / Farm / OHV) remains a key monitorable.

- **4QFY25 – Margin above estimates:** HFL reported revenue of INR 3.5bn (+3% YoY, flat QoQ), 2% above JMFe. EBITDA came-in at INR 1.02bn (+5%YoY, flat QoQ). EBITDA margin stood at 29.1% (+80bps YoY, +40bps QoQ), 60bps above JMFe, primarily due to lower than expected RM costs. PAT stood at INR 676mn (+3% YoY, +5% QoQ), 9% above JMFe due to higher than expected other income.
- **Operational update:** During 4QFY25, HFL's volumes grew c.7% YoY at 14,342 MT. Realisation declined by c.4% YoY to c.INR245/kg. Contribution of machined products reduced to 84% in 4QFY25 (88% in 4QFY24). Exports continued to remain a drag with c.23% YoY decline while domestic revenue grew by c.9% YoY. Its overall revenue growth of c.3% in 4Q was led by growth in the Industrials, OHV, and FE segments. Share of industrials business increased to 14% in FY25 (vs. 11% in FY24). In FY25, HFL announced new orders worth over INR 16bn in the PV and Industrial segments, to be executed over the next 5-8 years, with annual peak sales potential of above INR 2.5bn.
- **Demand outlook:** In the domestic market, the CV segment was impacted by lower MHCV production, but is expected to recover in FY26, supported by infrastructure push and improved financing availability. The farm segment remained healthy, with momentum expected to continue going ahead. The off-highway segment saw moderate growth in FY25 and is likely to sustain demand given ongoing infrastructure and real estate development. Internationally, demand across CV, farm, and off-highway segments remained weak, led by macroeconomic headwinds, inventory correction, and tariff-related pressures. These headwinds are expected to persist in the near-term. Despite this, the company expects 15-18% revenue growth over the medium term, driven by new product launches / order inflows and entry into new markets. Further, it expects revenue contribution from Industrials and PV to cross 25% in the medium-term (vs. 18% in FY25).
- **Margin outlook:** We expect margin to remain under pressure, impacted by weak export demand and initial ramp-up cost related to new facilities (heavyweight components forging facilities to commence in FY27). We transfer coverage to Saksham Kaushal.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
Net Sales	11,609	13,432	13,949	15,085	18,171
Sales Growth (%)	35.3	15.7	3.8	8.1	20.5
EBITDA	3,409	3,875	4,067	4,380	5,252
EBITDA Margin (%)	28.5	28.5	28.9	28.7	28.6
Adjusted Net Profit	2,087	2,430	2,674	2,755	3,267
Diluted EPS (INR)	23.3	25.8	28.4	29.2	34.7
Diluted EPS Growth (%)	46.8	10.6	10.0	3.0	18.6
ROIC (%)	19.5	18.6	15.2	13.3	13.5
ROE (%)	23.5	18.7	15.4	14.0	14.6
P/E (x)	35.1	31.7	28.8	28.0	23.6
P/B (x)	7.4	4.8	4.2	3.7	3.2
EV/EBITDA (x)	23.2	19.9	19.1	18.0	15.0
Dividend Yield (%)	0.0	0.5	0.4	0.4	0.5

Source: Company data, JM Financial. Note: Valuations as of 19/May/2025



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,000
Upside/(Downside)	22.2%
Previous Price Target	1,250
Change	-20.0%

Key Data – HAPPYFOR IN

Current Market Price	INR818
Market cap (bn)	INR77.1/US\$0.9
Free Float	33%
Shares in issue (mn)	94.2
Diluted share (mn)	94.2
3-mon avg daily val (mn)	INR37.7/US\$0.4
52-week range	1,300/716
Sensex/Nifty	82,059/24,945
INR/US\$	85.4

Price Performance

%	1M	6M	12M
Absolute	2.4	-24.3	-21.8
Relative*	-2.0	-28.4	-29.5

* To the BSE Sensex

JM Financial Research is also available on:
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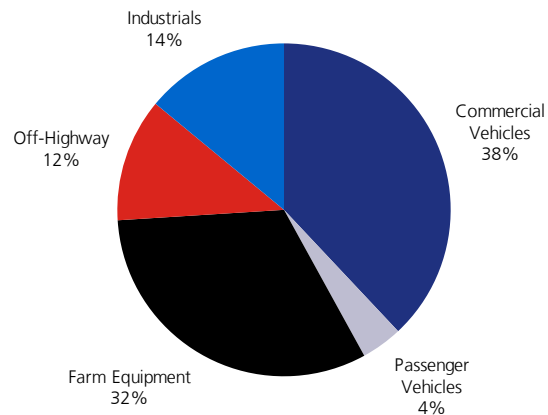
- **Other highlights:** 1) Capacity utilisation currently stands at 57% / 83% for Forging / Machining. 2) Capex guidance for FY26 is INR 4bn (including solar-related investments). The company is setting up 3 new facilities: a) 4k ton press line for its forging facility, b) ring mill with production expected to commence in 3QFY26, and c) industrial line for wind pinions and heavy axle shafts for NA market, with production expected to commence in 4QFY26. 3) HFL highlighted that INR 6.5bn capex plan (spread over 2-3 years) remains on track. This investment will support the establishment of advanced forging capabilities to serve requirements of heavy forged and machined components (>250 Kgs) in the non-automotive industrial segments (Power generation, Marine, Mining, High-HP farm equipment, etc.). HFL expects this capacity to be operational in FY27. An additional INR 800mn has been earmarked to scale PV segment. 4) It is also evaluating inorganic growth opportunities, specifically targeting companies with EBITDA in the range of INR 0.5-1bn.

Exhibit 1. Quarterly financial performance – consolidated

Financial Matrices (INR mn)	4QFY25	4QFY24	% YoY	3QFY25	% QoQ	4QFY25E	Var (%)
Sales	3,520	3,433	2.5	3,543	(0.7)	3,452	2.0
RM	1,455	1,494	(2.6)	1,489	(2.3)	1,464	(0.6)
as a % of sales	41.3	43.5	-220bps	42.0	-70bps	42.4	-110bps
Employee Exp	323	295	9.2	328	(1.8)	314	2.7
as a % of sales	9.2	8.6	60bps	9.3	-10bps	9.1	10bps
Other Costs	719	673	6.8	711	1.1	690	4.2
as a % of sales	20.4	19.6	80bps	20.1	40bps	20.0	40bps
Expenditure	2,497	2,462	1.4	2,529	(1.3)	2,468	1.2
EBITDA	1,023	971	5.3	1,015	0.8	984	4.0
EBITDA Margin (%)	29.1	28.3	80bps	28.6	40bps	28.5	60bps
Other Income	100	72	39.3	66	51	80	25.3
Interest	25	9	183.7	21	14	18	36.1
Depreciation	203	160	26.6	191	6	210	(3.4)
PBT	896	875	2.4	868	3	836	7.2
Tax	219	217	1.2	223	(2)	213	2.9
Tax rate (%)	24.5	24.8	-30bps	25.7	-120bps	25.5	(1.0)
PAT (Adjusted)	676	658	2.8	645	4.8	623	8.6
PAT Margin (%)	19%	19%	0.1	18%	1.0	18%	1.2
EPS (INR)	7.2	7.0	2.8	6.8	4.8	6.6	8.6

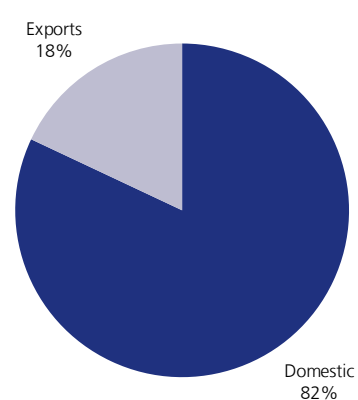
Source: Company, JM Financial

Exhibit 2. Revenue mix by segments-FY25



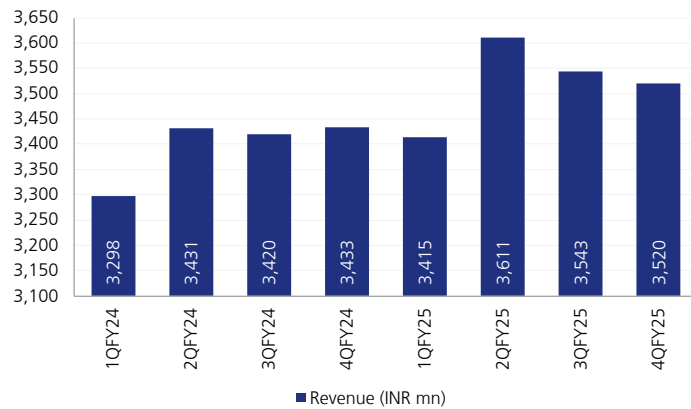
Source: Company, JM Financial

Exhibit 3. Revenue mix by geography-FY25



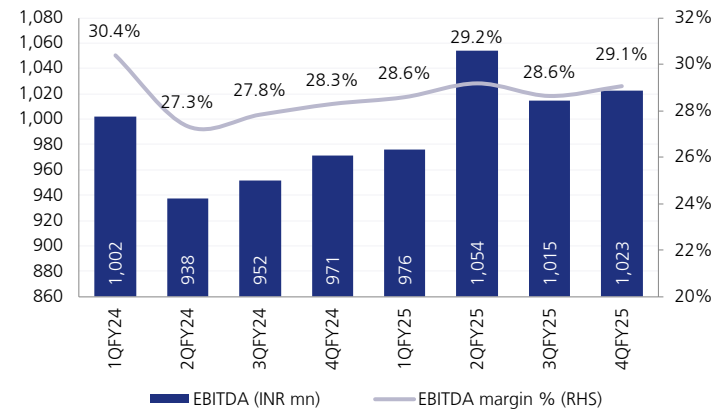
Source: Company, JM Financial

Exhibit 4. Revenue grew 2.5% YoY (flat QoQ) to INR 3.5bn



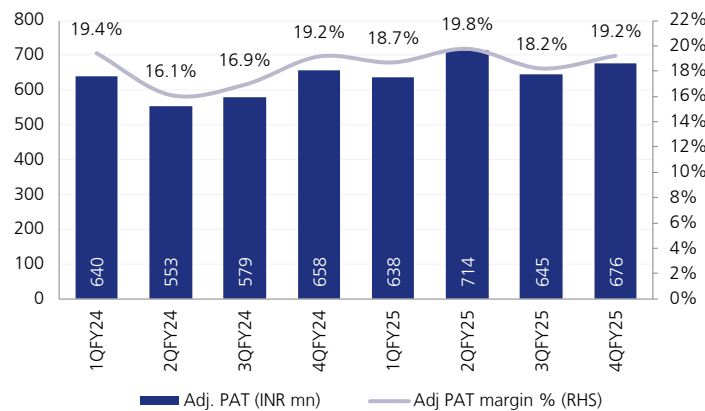
Source: Company, JM Financial

Exhibit 5. EBITDAM expanded by 80bps YoY (+40bps QoQ) to 29.1%



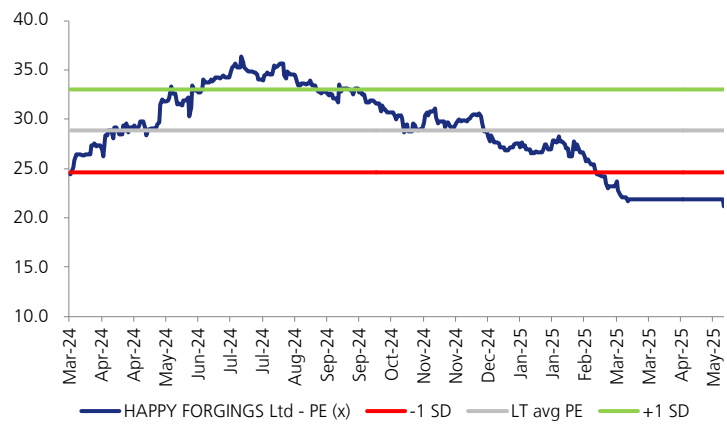
Source: Company, JM Financial

Exhibit 6. PAT grew 2.8% YoY (+4.8% QoQ) to INR 676mn



Source: Company, JM Financial

Exhibit 7. 1-yr forward PE chart



Source: Company, JM Financial

Exhibit 8. Change in estimates

Happy Forgings	New assumption			Old assumption			% Change		
	FY25A	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	14,089	15,273	18,372	14,569	17,348	20,493	-3.3%	-12.0%	-10.4%
EBITDA (INR mn)	4,067	4,380	5,252	4,194	5,094	6,043	-3.0%	-14.0%	-13.1%
EBITDAM (%)	28.9	28.7	28.6	28.8	29.4	29.5	10bps	-70bps	-90bps
PAT (INR mn)	2,675	2,755	3,267	2,765	3,325	3,868	-3.3%	-17.1%	-15.5%
EPS (INR)	28.4	29.2	34.7	29.4	35.3	41.1	-3.3%	-17.2%	-15.6%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
Net Sales	11,609	13,432	13,949	15,085	18,171
Sales Growth	35.3%	15.7%	3.8%	8.1%	20.5%
Other Operating Income	356	150	140	188	201
Total Revenue	11,965	13,582	14,089	15,273	18,372
Cost of Goods Sold/Op. Exp	5,510	5,966	5,917	6,429	7,734
Personnel Cost	878	1,145	1,248	1,362	1,612
Other Expenses	2,168	2,596	2,857	3,102	3,774
EBITDA	3,409	3,875	4,067	4,380	5,252
EBITDA Margin	28.5%	28.5%	28.9%	28.7%	28.6%
EBITDA Growth	47.7%	13.7%	4.9%	7.7%	19.9%
Depn. & Amort.	542	647	771	975	1,195
EBIT	2,867	3,228	3,296	3,405	4,057
Other Income	57	134	375	383	401
Finance Cost	125	118	75	182	182
PBT before Excep. & Forex	2,800	3,244	3,596	3,606	4,276
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,800	3,244	3,596	3,606	4,276
Taxes	713	814	921	851	1,009
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,087	2,430	2,674	2,755	3,267
Adjusted Net Profit	2,087	2,430	2,674	2,755	3,267
Net Margin	17.4%	17.9%	19.0%	18.0%	17.8%
Diluted Share Cap. (mn)	89.5	94.2	94.2	94.2	94.2
Diluted EPS (INR)	23.3	25.8	28.4	29.2	34.7
Diluted EPS Growth	46.8%	10.6%	10.0%	3.0%	18.6%
Total Dividend + Tax	0	377	283	283	377
Dividend Per Share (INR)	0.0	4.0	3.0	3.0	4.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
Profit before Tax	2,800	3,244	3,596	3,606	4,276
Depn. & Amort.	542	647	771	975	1,195
Net Interest Exp. / Inc. (-)	119	118	75	182	182
Inc (-) / Dec in WCap.	-779	-1,230	-486	-435	-1,258
Others	51	-50	-200	-57	-13
Taxes Paid	-638	-839	-832	-851	-1,009
Operating Cash Flow	2,094	1,890	2,923	3,421	3,373
Capex	-1,745	-1,941	-2,806	-4,000	-3,000
Free Cash Flow	350	-51	118	-579	373
Inc (-) / Dec in Investments	4	-2,765	-592	1,200	0
Others	16	13	195	57	13
Investing Cash Flow	-1,725	-4,693	-3,202	-2,743	-2,987
Inc / Dec (-) in Capital	0	3,810	7	0	0
Dividend + Tax thereon	0	-116	-377	-283	-377
Inc / Dec (-) in Loans	-252	-755	846	0	0
Others	-119	-130	-74	-182	-182
Financing Cash Flow	-370	2,809	402	-465	-559
Inc / Dec (-) in Cash	0	6	123	212	-173
Opening Cash Balance	0	0	6	129	342
Closing Cash Balance	0	6	129	342	168

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
Shareholders' Fund	9,883	16,125	18,495	20,968	23,858
Share Capital	179	188	188	188	188
Reserves & Surplus	9,704	15,937	18,307	20,780	23,669
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,185	1,430	2,280	2,280	2,280
Def. Tax Liab. / Assets (-)	230	316	393	393	393
Total - Equity & Liab.	12,299	17,871	21,169	23,641	26,531
Net Fixed Assets	7,532	8,704	10,305	13,330	15,136
Gross Fixed Assets	8,624	9,923	12,334	16,334	19,334
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,839	2,487	3,257	4,232	5,427
Capital WIP	748	1,267	1,228	1,228	1,228
Investments	318	3,252	2,747	1,547	1,547
Current Assets	5,411	6,904	9,100	9,866	11,142
Inventories	1,696	2,242	2,324	2,519	3,031
Sundry Debtors	3,081	3,569	4,265	4,624	5,562
Cash & Bank Balances	0	6	129	342	169
Loans & Advances	0	0	0	0	0
Other Current Assets	635	1,087	2,381	2,381	2,381
Current Liab. & Prov.	963	988	984	1,102	1,294
Current Liabilities	477	555	454	493	593
Provisions & Others	486	433	530	609	701
Net Current Assets	4,448	5,916	8,116	8,764	9,848
Total - Assets	12,299	17,871	21,169	23,641	26,531

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
Net Margin	17.4%	17.9%	19.0%	18.0%	17.8%
Asset Turnover (x)	1.0	0.9	0.7	0.7	0.7
Leverage Factor (x)	1.3	1.2	1.1	1.1	1.1
RoE	23.5%	18.7%	15.4%	14.0%	14.6%

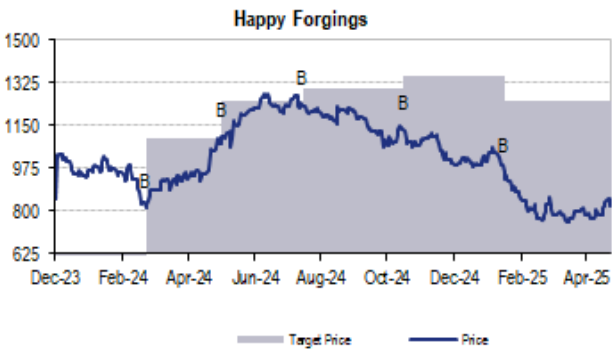
Key Ratios					
Y/E March	FY23A	FY24A	FY25A	FY26E	FY27E
BV/Share (INR)	110.4	171.2	196.3	222.5	253.2
ROIC	19.5%	18.6%	15.2%	13.3%	13.5%
ROE	23.5%	18.7%	15.4%	14.0%	14.6%
Net Debt/Equity (x)	0.2	0.0	0.0	0.1	0.1
P/E (x)	35.1	31.7	28.8	28.0	23.6
P/B (x)	7.4	4.8	4.2	3.7	3.2
EV/EBITDA (x)	23.2	19.9	19.1	18.0	15.0
EV/Sales (x)	6.6	5.7	5.5	5.2	4.3
Debtor days	94	96	111	111	111
Inventory days	52	60	60	60	60
Creditor days	20	21	17	17	16

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
9-Aug-24	Buy	1,300	4.0
10-Nov-24	Buy	1,350	3.8
10-Feb-25	Buy	1,250	-7.4

Recommendation History



APPENDIX I

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Corporate Identity Number: U67100MH2017PLC296081

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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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