

Harsha Engineers International Limited

Harsha Engineers International Ltd (HEIL) is the largest manufacturer of precision bearing cages, in terms of revenue, in organized sector in India, and amongst the leading manufacturers of precision bearing cages in the world. HEIL offers diversified suite of precision engineering products across geographies and end-user industries. It operates under 2 Business Divisions: (i) Engineering business, under which it manufactures bearing cages (in brass, steel, and polyamide materials), complex and specialized precision stamped components, welded assemblies and brass castings and cages & bronze bushings; and (ii) solar EPC business, under which it provides complete comprehensive turnkey solutions to all solar photovoltaic requirements.

Positives: (a) Comprehensive solution provider offering a diversified suite of precision engineering products across geographies and end-user industries. (b) Expertise in Tooling, design development and automation (c) Strategically located domestic and international production facilities and warehouses. (d) Long-standing relationships with leading clientele.

Investment concerns: (a) High exposure to foreign currency exchange rate fluctuations (b) HEIL has recently completed a corporate reorganization, due to which they may face administrative and operational difficulties. (c) High dependence on limited number of customers. (d) HEIL has certain contingent liabilities and capital commitments, which, if they materialize, may adversely affect the financial condition.

Outlook & Valuation: In terms of valuations, the post-issue P/E works out to 32.7x FY22 EPS (at the upper end of the issue price band). Company's consolidated PAT has grown at CAGR of ~105% over FY20-22 on back of margin expansion. HEIL has diverse product portfolio and strong expertise; we believe that these positives are yet to be factored in the valuations commanded by the company. Thus, we have a **SUBSCRIBE** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Sales	886	874	1,321
% chg		-1%	51%
Net Profit	22	45	92
% chg		107%	102%
EBITDA (%)	9.7	13.9	12.8
EPS (Rs)	2.4	5.0	10.1
P/E (x)	137.1	66.1	32.7
P/BV (x)	8.1	7.0	5.8
ROE (%)	5.9	10.6	17.6
ROCE (%)	6.4	11.2	14.7
EV/Sales	3.8	3.8	2.5

Source: Company RHP, Angel Research

SUBSCRIBE

Issue Open: September 14, 2022

Issue Close: September 16, 2022

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 77cr

Offer for Sale: ₹ 300cr

Fresh issue: ₹455cr

Post Eq. Paid up Capital: ₹ 91cr

Issue size (amount): ₹ 755cr

Price Band: ₹314- ₹330

Lot Size: 45 shares and in multiple thereafter

Post-issue mkt. cap: * ₹2,881cr - ** ₹3,004cr

Promoters holding Pre-Issue: 99.70%

Promoters holding Post-Issue: 0.30%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	74.6%
Public	25.4%

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Company background

Harsha Engineers International Ltd (HEIL) was incorporated on 11th December 2010. It is part of Harsha Group and is the largest manufacturer of precision bearing cages, in terms of revenue, in organized sector in India, and amongst the leading manufacturers of precision bearing cages in the world. It has a market share of ~50-60% in the Indian bearing cages market and a 6.5% market share in global organized bearing brass, steel, and polyamide cages market.

HEIL operates under 2 Business Divisions:

- 1) Engineering business, under which it manufactures bearing cages (in brass, steel, and polyamide materials), complex and specialized precision stamped components, welded assemblies and brass castings and cages & bronze bushings; and
- 2) Solar EPC business, under which it provides complete comprehensive turnkey solutions to all solar photovoltaic requirements.

HEIL offers diversified suite of precision engineering products across geographies and end-user industries. They offer a wide range of bearing cages starting from 20 mm to 2,000 mm in diameter and their bearing cages find its application in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics sectors amongst others.

HEIL has 4 strategically located manufacturing facilities for their engineering business with one of their principal manufacturing facilities at Changodar and one at Moraiya, near Ahmedabad in Gujarat, and one manufacturing unit each at Changshu, China, and Ghimbav Brasov in Romania. Company derives majority of its Revenues from exports.

Issue details

The IPO is made up of Fresh issue of ₹455cr and offer for sale of ₹300cr making the total Issue size of ₹755cr.

Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	7,70,17,433	99.7%	6,79,26,524	74.6%
Public	2,30,977	0.30%	2,31,09,765	25.4%
Total	7,72,48,410	100.0%	9,10,36,289	100.0%

Source: Company, Angel Research

Objectives of the Offer

- Rs 455cr proceeds from the fresh issue would be utilized as follows:
 - Up to ₹270cr utilized for pre-payment or scheduled repayment of a portion of the existing borrowing availed by the company.
 - Up to ₹78cr utilized for funding capital expenditure requirements towards purchase of machinery.
 - ~₹7cr to be used for Infrastructure repairs and renovation of our existing production facilities including office premises in India.
 - Rest would be utilized for general corporate purposes

Key Management Personnel

Rajendra Shah is the Promoter, Chairman and Whole-time Director of the company. Currently, he looks after overall management of the company, particularly all financial matters. He has over 35 years of experience in the precision engineering business for bearing cages and stamped components.

Harish Rangwala is the Promoter, Managing Director of the company. Currently, he looks after overall management of the company along with Renewable energy division. He has over 35 years of experience in the precision engineering business for bearing cages and stamped components.

Vishal Rangwala is the Promoter, Chief Executive Officer, and Whole-time Director of the company. He is responsible for the overall strategic directions for the Harsha group and is currently leading marketing and corporate functions. He has over 13 years of experience in the precision engineering business for bearing cages and stamped components.

Pilak Shah is the Promoter, Chief Operating Officer, and Whole-time Director of the company. He is responsible for the overall strategic directions of the Harsha Group. He has over 13 years of experience in the precision engineering business for bearing cages and stamped components.

Hetal Ukani is a Whole-time Director of the company. She has been associated with the company since 2015. She is responsible for Health and Safety of all employees and others who may be affected by the company's operations. She also plays a vital role in managing TPM function of the company.

Financial Summary

Income Statement (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Net Sales	886	874	1,321
<i>% chg</i>		-1%	51%
Total Expenditure	800	752	1,152
Raw Material	458	415	740
Personnel	149	146	158
Other Expenses	193	191	255
EBITDA	86	122	169
<i>% chg</i>		42%	39%
<i>(% of Net Sales)</i>	9.7	13.9	12.8
Depreciation & Amortisation	35	34	35
EBIT	51	88	134
<i>% chg</i>		73%	52%
<i>(% of Net Sales)</i>	5.7	10.0	10.1
Interest & other Charges	33	30	25
Other Income	14	3	18
<i>(% of PBT)</i>	43.2	4.9	13.8
PBT	32	61	127
<i>% chg</i>		92%	109%
Tax	10	15	35
<i>(% of PBT)</i>	30.6	25.2	27.4
PAT	22	45	92
<i>% chg</i>		107%	102%
<i>(% of Net Sales)</i>	2	5.2	7.0
EPS (Rs)	2.4	5.0	10.1

Source: Company, Angel Research

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Equity Share Capital	50	50	77
Reserves & Surplus	322	377	445
Shareholders' Funds	372	427	522
Minority Interest	-	-	-
Total Loans	419	357	385
Other Liabilities	9	12	13
Total Liabilities	800	795	920
APPLICATION OF FUNDS			
Net Block	264	269	285
Goodwill	70	73	71
Capital Work-in-Progress	3	3	2
Investments	7	9	6
Current Assets	611	608	774
Inventories	232	268	376
Sundry Debtors	239	214	283
Cash	57	45	39
Loans & Advances	7	5	12
Other Assets	76	76	63
Current liabilities	188	184	234
Net Current Assets	423	424	539
Deferred Tax Liabilities (net)	(15)	2	4
Other Assets	18	18	20
Total Assets	800	795	920

Source: Company, Angel Research

Cashflow Statement (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Profit before tax	32	61	127
Depreciation	35	34	35
Change in Working Capital	30	-2	-121
Interest / Dividend (Net)	30	28	23
Direct taxes paid	(13)	-1	-31
Others	0	2	4
Cash Flow from Operations	113	121	36
(Inc.)/ Dec. in Fixed Assets	(74)	-42	-47
(Inc.)/ Dec. in Investments	5	0	-1
Interest Received	1	21	-6
Cash Flow from Investing	(68)	(22)	(53)
Proceed / (Repayment) of long-term borrowings	5	(62)	28
Dividend Paid (Incl. Tax)	(10)	0	0
Interest / Dividend (Net)	(30)	-28	-23
Cash Flow from Financing	(35)	(90)	5
Inc./ (Dec.) in Cash	10	9	(12)
Opening Cash balances	14	24	33
Closing Cash balances	24	33	21

Source: Company, Angel Research

Key Ratios

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Valuation Ratio (x)			
P/E (on FDEPS)	137.1	66.1	32.7
P/CEPS	52.6	37.8	23.6
P/BV	8.1	7.0	5.8
EV/Sales	3.8	3.8	2.5
Per Share Data (Rs)			
EPS (Basic)	3.1	6.4	12.9
EPS (fully diluted)	2.4	5.0	10.1
Cash EPS	6.3	8.7	14.0
Book Value	40.9	46.9	57.3
Returns (%)			
ROE	5.9	10.6	17.6
ROCE	6.4	11.2	14.7

Source: Company, Angel Research;

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