

Company Overview

Harsha Engineers International Ltd is one of the largest manufacturers of precision bearing cages, having approximately 50-60% market share in the organised sector in India. The Company's product line-up is diverse in terms of end-user sectors and geographical regions. In the organised sector, which includes brass, steel, and polyamide bearing caps, the company has a global market share of roughly 5–6%. The company's primary line of business is the production of bearing cages (in brass, steel, and polyamide materials), intricate and specialised precision stamped components, welded assemblies, brass castings, cages, and bronze bushings. It also operates in the solar EPC sector, where it offers comprehensive turnkey solutions for all solar photovoltaic requirements. In the engineering operations segment, the company has four strategically placed manufacturing facilities, two of which are in India's Gujarat state near Ahmedabad, at Changodar and Moraiya, and one each in Changshu, China and Ghimbav-Braşov, Romania.

Objects of the issue

The following uses will be made of the IPO proceeds:

- ⇒ Pre-payment or scheduled repayment of a portion of the existing borrowing availed by our Company
- ⇒ Funding capital expenditure requirements toward the purchase of machinery .
- ⇒ Infrastructure repairs and renovation of our existing production facilities including office premises in India
- ⇒ General corporate purposes

Investment Rationale

Strong Demand for Customized Bearings

Today's bearing industry is expanding as a result of expansion in the industrial sector and strong demand across various other sectors, such as equipment, construction, automotive, aerospace, and defence. To fulfil their changing needs, manufacturers are focusing on the use of customised bearings as a result of the growing use of new technologies and digitalization. The market will be further boosted by the increased demand for customised bearing solutions that satisfy various industry-specific needs, such as the growing EV sector. The automotive industry is turning its attention to electric automobiles. The demand is going to shift progressively towards exact dimension and dirt-free bearing, steel and polyamide cages as a potential option at a premium price as the need for more silent and lighter bearings, and their components are required. The company can produce precision stamping components and steel cages suitable for the electric car industry, including that of import substitutes, thanks to in-house tool and design facilities, modern machinery, specialised cleaning equipment, and software.

Strategically positioned industrial plants both domestically and globally

The Company's global presence in China and Romania aids them in overcoming substantial entry barriers allowing them to access these markets more deeply than their rivals. Engineering and producing goods in several areas enables them to provide services, and customer requests from alternative places, providing the customer with the benefit of regular supply and cost-competitive manufacturing operation. Although China is regarded as the centre of the world's manufacturing, current macro factors like the US-China trade conflict and the global Covid-19 outbreak prompted manufacturers to establish production facilities in certain areas other than China in emerging markets like India, which is positive for companies like Harsha Engineering who makes bearing cages.

Valuation and Outlook

The general rise in the global economy and a rise in the technological advancements in the bearing cage manufacturing business provide HEIL with strong support to further grow in global markets. The company has a stronghold in India and long-standing relationships with leading clientele supplying to the Top-6 global bearing manufacturers. The wide application of bearings growing in different sectors coupled with substantial government initiatives to promote the manufacturing sector is a robust driver for the company. However, the rising raw material prices remain a top concern for the manufacturer. On the upper end of the price band, the issue is valued at a PE of 27.7x (based on FY22 earnings), which we believe to be fairly priced in comparison with the listed peers (Timken – 77.3x & Rolex Rings – 39.2x). Due to the above factors we give this issue a “SUBSCRIBE” rating for the long term as well as for the Listing gains.

Issue Details

Offer Period	14 th Sept– 16 th Sept, 2022
Price Band	INR.314 to INR.330
Bid Lot	45
Listing	BSE&NSE
Issue Size (no. of shares in mn)	24.05/22.89
Issue Size (INR. in bn)	7.55
Face Value	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%
BRLM	Axis Capital Limited Equirus Capital Private Ltd JM Financial Limited
Registrar	Link Intime India Private Limited

Particulars Pre Issue % Post Issue %

Promoter	57.43%	43.46%
Promoter Group	42.27%	31.15%
Public	0.30%	25.39%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Harsha Engineers International Ltd.

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Income Statement (In mn)

Particulars	FY22	FY21	FY20
Revenue			
Revenue from Operations	13,215	8,738	8,859
Total Revenue	13,215	8,738	8,859
Expenses			
Cost of Material Consumed	7,992	4,341	4,480
Change in inventory of Finished goods& Work in Progress	(595)	(193)	101
Employee benefit expenses	1,580	1,464	1,490
Other expenses	2,547	1,908	1,927
Total Operating Expenses	11,525	7,519	7,999
EBITDA	1,690	1,218	860
Depreciation and amortisation expense	354	341	352
Other income	175	30	137
EBIT	1,512	907	644
Finance costs	246	300	328
PBT	1,266	607	316
Current tax	332		146
Deferred Tax charge	14	153	(63)
MAT Credit reversed/(availed)			14
Total tax	347	153	97
PAT	919	454	219
Diluted EPS	12	6	4

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY22	FY21	FY20
Cash Flow from operating activities	365	1,212	1,129
Cash flow from investing activities	(518)	(200)	(646)
Cash flow from financing activities	37	(924)	(383)
Net increase/(decrease) in cash and cash equivalents	(116)	88	101
Cash and cash equivalents at the beginning of the period	330	243	142
Cash and cash equivalents at the end of the period	214	330	243

Source: RHP, BP Equities Research



Harsha Engineers International Ltd.

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Balance Sheet (In mn)

Particulars	FY22	FY21	FY20
Equity and Liabilities			
Share Capital	772	500	500
Other Equity	4,446	3,772	3,220
Net worth	5,219	4,272	3,720
Long-Term Borrowings	1,378	1,015	1,276
Long-Term Provisions	111	95	69
Lease Liabilities	55	76	61
Deferred tax liabilities	40	20	(149)
Other non-current liabilities	22	21	21
Total Non Current Liabilities	1,606	1,227	1,278
Current Liabilities			
Borrowings	2,406	2,470	2,844
Lease Liabilities	9	6	10
Trade Payables	1,828	1,167	1,115
Other Financial Liabilities	235	263	184
Short Term Provisions	21	20	19
Other current liabilities	238	398	552
Current tax liabilities	22	(11)	12
Total Current Liabilities	4,758	4,312	4,735
Total liabilities	6,364	5,539	6,013
Total Equity and Liabilities	11,583	9,811	9,732
Assets			
Property, plant and equipment	2,829	2,678	2,620
Capital work in Progress	21	33	34
Goodwill on Consolidation	711	731	701
Other Intangible assets	18	15	17
Investments	0	0	0
Loans and Advances	1	1	1
Other Financial Assets	6	4	4
Other tax assets	110	99	106
Other non-current assets	86	78	73
Total Non current assets	3,782	3,640	3,555
Inventories	3,757	2,675	2,319
Investments	64	93	66
Trade Receivables	2,828	2,139	2,387
Cash and cash equivalents	214	330	243
Other Bank Balances	179	123	329
Loans and Advances	123	48	70
Other Financial Assets	108	69	55
Other current assets	527	693	709
Total Current Asset	7,800	6,171	6,177
Total Assets	11,583	9,811	9,732

Source: RHP, BP Equities Research

Key Risks

- ⇒ The company depends on a limited number of customer groups for a significant portion of its revenue from engineering business. The loss of any of its major customer groups due to any adverse development or significant reduction in business from the major customer groups may adversely affect the business, financial condition, results of operations, cash flow and future prospects.
- ⇒ The company is exposed to foreign currency exchange rate fluctuations, which may adversely affect its results of operations and cause its quarterly results to fluctuate significantly.
- ⇒ The company is dependent on third parties for the supply of raw material and delivery of products. A disruption in the supply of raw materials or failure of the suppliers to meet their obligations could impact its production and increase its costs.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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