

14 September 2022

## Harsha Engineers – SUBSCRIBE

### Investment Thesis

Harsha Engineers International Ltd. (Harsha Engineers) is coming out with an initial public offering (IPO) on September 14, 2022. The issue comprises of fresh issue of equity shares worth Rs.4,550mn and offer for sale of equity shares worth Rs.3,000mn. The IPO proceeds will be utilized for pre-payment of debt, funding capital expenditure for purchase of machinery and renovation of its existing production facilities.

Harsha Engineers is the largest manufacturer of precision bearing cages in the organized sector in India in terms of revenues. It stands amongst the leading manufacturers of precision bearing cages in the world and commands a share of 6.5% in the global organized bearing brass, steel and polyamide cages market in CY21. Harsha Engineers has built a diversified product portfolio having different types of bearing cages by leveraging its design, development, and technological capabilities. It has the capacity to manufacture over 7,205 bearing cages and over 295 other products that cater to the varying requirements of customers operating in the Automotive, Railways, Aviation & Aerospace, Construction, Mining, Agriculture, Electrical & Electronics, and Renewable sectors. Furthermore, over the past 3 years, the company has developed more than 1,200 products in different bearing types. It operates under 2 business divisions, viz., Engineering business (bearing cages, complex and specialized precision stamped components, etc.) and Solar EPC business (turnkey solutions to all solar photovoltaic requirements).

With a strong focus on quality, design and tool development aided by technology, Harsha Engineers has developed products suited to its customers' requirements. Harsha Engineers has developed the expertise to design and develop advanced tooling in-house which enables it to manufacture precision bearing cages along with complex and specialized precision stamped components. The company has diversified its product portfolio into different types of bearing cages mainly due to its in-house design, development and technological capabilities.

### Revenue from business Verticals

- During the past 2 years, revenue of Harsha Engineers grew at CAGR of 22.1% while PAT become grew at CAGR of 104.9% in same period.

Consol. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	8,859	8,738	13,215	15,197	17,477
EBITDA	783	1,177	1,686	1,939	2,230
% growth	92.6	50.4	43.2	15.0	15.0
PAT	219	454	919	1,057	1,216
EPS (Rs.) #	2.4	5.0	10.1	11.6	13.4
P/E (x) *#	137.1	66.1	32.7	28.4	24.7
RoE (%) #	5.7%	10.3%	17.2%	18.2%	19.3%

\* At highest price band # Post listing

### IPO Details

Issue Open Date	14 Sept. 2022
Issue Close Date	16 Sept. 2022
Price Band (Rs.)	Rs. 314 – Rs. 330
Issue Size (Rs in Cr)	Rs. 7,550 Mn
Issue Size (Shares)*	22,878,788
Market Lot	45 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10/-

\* At highest price band

### Key Details

Fresh Issue	Rs. 4,550 Mn
Offer for Sales	Rs. 3,000 Mn
Issue Type	Book Building
Book Running Lead Manager	Axis Capital, Equirus Capital, JM Financial Consultants
Issue structure	QIB: 50% Non Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	23 Sept. 2022
Issue Listing Date	26 Sept. 2022

\* At highest price band

## Key Business Highlights

- Harsha Engineers is the largest manufacturer of precision bearing cages in organised sector in India in terms of revenue. It supplies its products to customers in over 25 countries covering five continents.
- Harsha Engineers manufacture over 7,205 bearing cages and 295 other products for customers in automotive, railways, construction, aviation & aerospace, mining, agriculture, electrical & electronics and renewables sectors.
- Harsha Engineers has four strategically located manufacturing facilities located at Changodar and Moraiya (near Ahmedabad, Gujarat), Changshu (China) and Ghimbav Brasov (Romania).

## Valuation

- Bearing industry is expanding as a result of expansion in the industrial sector and strong demand across various other sectors. To cater to this growing demand, companies are focusing on the use of customized bearings with use of new technologies and digitalization. Demand are further boosted by customized bearing solutions that satisfy various industry specific needs, such as the growing EV sector. Automobile industry is turning its focus to electric automobiles and the demand is going to shift progressively towards exact dimension and dirt-free bearing, steel and polyamide cages. Due to in-house tool and design facilities, modern machinery, specialized cleaning equipment and software, Harsha Engineers has developed strong capability to produce precision stamping components and steel cages suitable for the electric car industry.
- Harsha Engineers has established strong relationship with its customers who are leading global bearing manufacturers. Globally, the bearing cages market is concentrated among a few bearing manufacturers with top-6 global bearing manufacturers contributing to 54% of the market share and Harsha Engineers supply to each of the top-6 global bearing manufacturers. With its top-5 customer, Harsha Engineers has relationship for more than a decade. Customer-centric approach has allowed Harsha Engineers to enter into long term relationship with leading key global bearing manufacturers.
- Strategic location of Harsha Engineers helps it to penetrate global markets more efficiently and in a cost effective manner. It also gives the ability to cater to the needs of its customers from multiple locations, at times designing products at one location while manufacturing at another. Its dual-shore capabilities, which allow it to carry out design, engineering and manufacturing of products at different locations and service customer requirements from alternate locations, give customers the benefit of regular supply and cost - competitive manufacturing operations.
- With decades of experience in precision engineering, expertise in area of tooling, strategically located production facilities, focus on design and tooling coupled with technologically advanced and cost competitive manufacturing technology processes, we are recommending **SUBSCRIBE** rating to the IPO of Harsha Engineers International Ltd. for medium to long term perspective.

## Risk & Concern

- Harsha Engineers generates major portion of its revenue from few customer, any loss of its major customer or significant reduction in business may adversely affect the business of the company.
- Harsha Engineers is exposed to foreign exchange rate fluctuations, any negative currency fluctuation may adversely affect its margins.
- Harsha Engineers is dependent on third parties for the supply of raw material. Any disruption in the supply of raw materials may impact its production and increase its costs.

## Graphs & Charts

Figure 1: Net Sales Trend

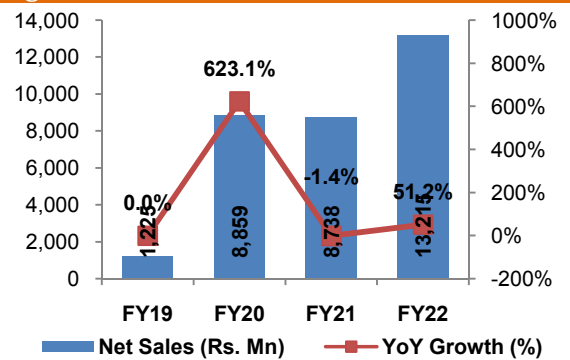


Figure 2: EBITDA & EBITDA Margin Trend

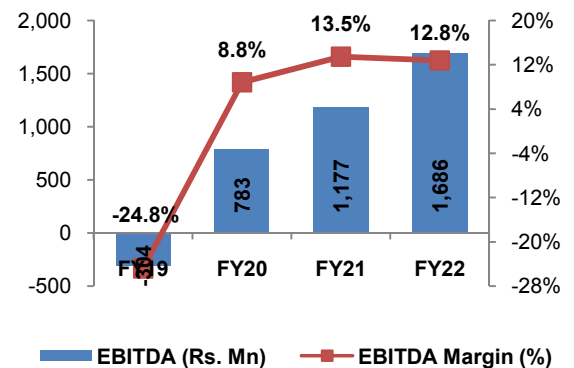


Figure 3: PAT & PAT Margins

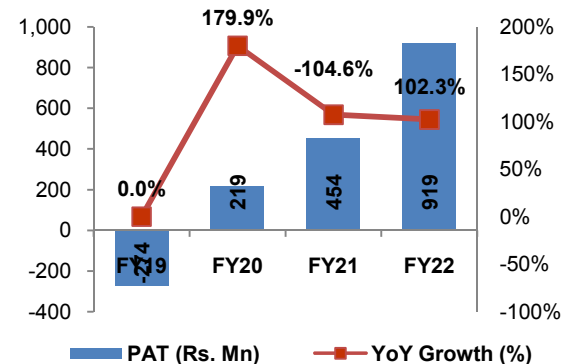
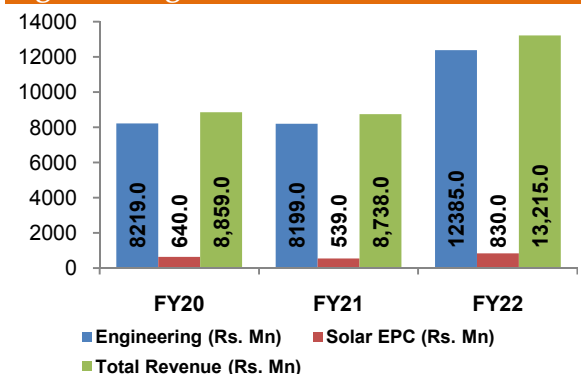


Figure 4: Segmental Revenue Trend



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