

RETAIL EQUITY RESEARCH

Harsha Engineers International Ltd.

Bearings

SENSEX: 60,115

NIFTY: 17,936

SUBSCRIBE

Price Range Rs. 314 - Rs. 330

A global player in bearing industry....

Harsha Engineers International Ltd (HEIL) is the largest manufacturer of precision bearing cages (critical component within bearings), in terms of revenue, in organised sector in India (60% market share), and amongst the leading manufacturers of precision bearing cages in the world (6.5% market share). HEIL manufactures a wide range of brass, steel and polyamide bearing cages; stamping components primarily used in the auto-component industry; and sand casting, value added stamping components, bronze bushings etc. to cater to wind, mining and shipping sectors. They cater to customers with over 50% global market share in bearing industry. They also have a solar EPC business (6% of revenue), under which they provide turnkey solutions to all solar photovoltaic requirements.

- The world bearing cage market is estimated at USD 5,230.6 million in 2021 and is expected to grow at a CAGR of 6% to 8% between 2021-29.
- They supply products to customers in over 25 countries, covering five continents. HEIL’s four strategically located manufacturing facilities in India, China and Romania and warehouses in 20 locations worldwide help them serve its clients productively and economically.
- In FY22, sales to India, Europe, China and Americas contributed 37%, 38%, 13%, and 6%, respectively, from the engineering segment. Manufacturing and services in India, China and Romania contributed 72%, 8% and 20% of total revenue.
- HEIL’s revenue from operations grew from Rs.886cr to Rs.1,322cr at a CAGR of 22% between FY20 and FY22 and its PAT grew by 105% CAGR from Rs.22cr to Rs.92cr in the same period.
- The company has an average EBITDA Margin of 12.1% and RoE of 11.4% during FY20-22 and can be expected to improve due to product expansion, debottlenecking, increasing capacity utilization (Current-63%) and reduction in commodity prices in the future.
- As of FY22, HEIL has a D/E of 0.7 and debt repayments of Rs.270cr from IPO proceeds will make D/E negligible.
- HEIL will not be impacted by the automotive segment’s shift towards EVs as they are not manufacturing needle bearings cages, which are engine components, while the EV shift will increase the precision requirements sought by customers, which will help companies like HEIL to further improve their market share.
- At the upper price band of Rs.330, HEIL is available at a P/E of 32.7x (FY22), which appears reasonably priced compared to peers. Considering its strong financials and market share, the China-plus-one strategy by major economies and growing outsourcing trend of bearing manufacturers, we assign a “Subscribe” rating on a medium to long term basis.

Purpose of IPO

The IPO consists of a fresh issue of Rs.455cr and an offer for sale of equity shares (Rs. 300cr). The proceeds worth Rs.270cr will be utilised for debt repayment, funding capital expenditure (Rs.77.9cr),infrastructure repairs and renovation (Rs.7.12cr) and general corporate purposes.

Key Risks

- HEIL’s top five customers contributes ~70% of the revenue from operations.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	P/E(x)	CMP(₹)
Harsha Engineers	3,004	1,321	12.8	7.0	10.1	17.6	32.7	330
Timken India	25,084	2,203	23.2	14.8	43.5	21.8	77.2	3,361
SKF India	23,938	3,666	15.2	10.8	79.9	22.9	61.3	4,894
Rolex Rings	5,517	616	17.6	14.1	36.0	27.4	55.0	1,977
Sundram Fasteners	18,882	4,767	16.8	9.6	21.6	18.4	40.8	884

Source: Geojit Research, Bloomberg; Valuations of HEIL are based on upper end of the price band (post issue), Financials as per FY22 consolidated.

Issue Details	
Date of opening	Sep 14, 2022
Date of closing	Sep 16, 2022
Total No. of shares offered (cr.)	2.29
Post Issue No. of shares (cr)	9.10
Price Band	₹314 - ₹330
Face Value	₹ 10
Bid Lot	45 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,850
Maximum application for retail (upper price band for 13 lot)	₹ 1,93,050
Listing	BSE,NSE
Lead Managers	Equirus Capital Pvt. Ltd JM Financial Ltd., Axis Capital Ltd.
Registrar	Link Intime India Pvt. Ltd.

Issue size (upper price)	Rs.Cr
Fresh Issue	455.0
OFS	300.0
Total Issue	755.0

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	99.7	74.6
Public	0.3	25.4
Total	100	100

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	263.38
Non-Institutional	15	112.88
QIB	50	376.25
Employee Reservation	-	2.50
Total	100	755.0

Y.E March (Rs cr) Consol.	FY20	FY21	FY22
Sales	885.9	873.8	1,321.5
Growth (%)	-	-1.4	51.2
EBITDA	86.0	121.8	169.0
Margin(%)	9.7	13.9	12.8
PAT Adj.	21.9	45.4	91.9
Growth (%)	-	107.4	102.3
EPS	2.4	5.0	10.1
P/E (x)	137.1	66.1	32.7
EV/EBITDA	39.8	27.6	20.0
RoE (%)	5.9	10.6	17.6



Product portfolio

The Company manufactures bearing cages, semi-finished brass castings, specialty stamping components and bronze castings and bushings. HEIL has developed capacity to manufacture more than 7,500 products ranging up to 2,000 mm in diameter and the bearing cages find its application in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors etc. They supply products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. HEIL has long standing relationships (more than 1 years) with leading bearing manufacturers. They supply to each of the top 6 bearing manufacturers like Shaeffler AG, NTN, KF, NSK, Timken and JTEKT.

◆ Bearing Cages

The bearing cage category comprises of roller cages and ball bearing cages. The cages offer high rigidity, strength and high heat resistant operating conditions. While bearing cages can be manufactured using various materials, HEIL primarily manufactures bearing cages out of brass, steel and polyamide, which represent the most common types of base materials used in the bearing cages market. Their dedicated product development and innovation centre and tool production facilities is at Changodar Plant. Over the past 5 years, HEIL developed more than 7,500 types of products for different bearing cage and stamping divisions.

◆ Bronze Bushes for Sliding bearing

HEIL has diversified in producing bronze bushes for sliding bearing. These bushes are predominantly used in the gear boxes for Wind turning in Planetary Axels. HEIL manufactures semi-finished brass castings for their customers who, in turn carry out processes for converting such semi-finished brass castings into a bearing cage. Majority of such semi-finished brass castings are manufactured by their Step-down Subsidiary in Romania.

◆ Specialty Components

HEIL plans on capitalizing on the existing niche low volume high value products in the stamping and special component segment and continue to gradually scale up its business over next 3 to 5 years. They plan to continue manufacturing specialized parts/components and supplying to auto component assembly manufacturers. Currently, they provide comprehensive metal stamping solutions ranging from simple to complex designs and geometries.

MANUFACTURING UNITS

HEIL presently have a total of four production units for the engineering business, of which, two of the primary production units are located at, Changodar and Moraiya, Ahmedabad. Additionally, they have one production unit in China and one production unit in Romania. They supply products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. To help HEIL meet 'just in time' requirements of the customers, they have entered into arrangements to stock inventory in warehouses spread across more than 20 locations across the world including in, Europe, US, China and South America. The multinational presence has also allowed them to diversify the revenue geographically.

Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end-user industries

HEIL has a diversified product portfolio in terms of the materials used as well as the dimensions and end-use of the finished products. They primarily manufacture bearing cages in the range of 20 mm to 2,000 mm in diameter. Within their diversified product portfolio, they manufacture bearing cages (including cylindrical roller cages, spherical roller cages, deep groove cages, angular contact cages, thrust roller cages and taper roller cages), complex and specialised precision stamped components, welded assemblies and brass castings and bushings. Since the incorporation, they have manufactured more than 7,500 types of products in the automotive and industrial segments. They manufacture bearing cages in brass, steel and polyamide which represents 6.5% of the global organised outsourced bearing (brass, steel & polyamide) cages market in CY 2021 (*Source: CARE Advisory Report*). They have approximately 50-60% of the market share in the organised segment of the Indian bearing cages market (*Source: CARE Advisory Report*).

Long standing relationships with leading clientele

The bearing cages market globally is concentrated among a few global bearing manufacturers with top six global bearing manufacturers contributing to 54% of the market share in FY22 (*Source: CARE Advisory Report*). As of March 31, 2022, HEIL supply to each of the top six global bearing manufacturers. The average age of the relationship with the top five customer groups spans more than a decade. As bearing cage accounts for a small portion of the total cost of a bearing and considering the complexity of the production process for such bearing cages, once the bearing cages customer gets a reliable vendor they will prefer continuing with such vendor for a long period of time.

Strategically located domestic and international production facilities and warehouses

HEIL has four strategically located manufacturing facilities spread across three countries in India, China, and Romania. As on March 31, 2022, the aggregate installed capacity across these manufacturing facilities was 4,596 metric tonne per annum for castings and 1,097.87 million pieces per annum for bearing cages. HEIL's presence in these locations helps them overcome significant entry barriers in comparison with the competitors, allowing them to penetrate these markets more efficiently and becoming a local supplier to leading key global bearing players. The presence in these strategic locations help them penetrate global markets more efficiently and in a cost effective manner.

Consistent track record of growth and financial performance

For Fiscals 2022, 2021 and 2020, HEIL generated total revenue from operations from engineering business of ₹ 1,238.5.3cr, ₹ 819.56cr, and ₹ 821.65cr respectively, as per the Restated Consolidated Financial Statements. Moreover, they have low leverage, with a net debt-to-equity ratio of 0.68 as of March 31, 2022. For Fiscal 2022, 2021 and 2020, they achieved an EBITDA margin of 14.12%, 14.30%, and 11.29% , respectively, as per the Restated Consolidated Financial Statements. the RoAE was 19.13%, 11.20%, and 6.10% respectively for Fiscal 2022, 2021 and 2020, and RoACE was 24.92%, 17.24 %, and 18.05% and respectively, as per the Restated Consolidated Financial Statements.

Key Strategies

- Enhance market leadership in bearing cages and expanding the customer base.
- Retain and strengthen the technological leadership through continued focus on development and automation.
- Focus on increasing operational efficiencies to improve returns.
- Increased focus on developing products suited to capture market opportunity in the growing electric vehicle segment.
- Focus on growth by opportunistic inorganic acquisitions and partnerships with customers.



Industry Outlook...

The global bearing cages is estimated at about 5% of the global bearings market. The global bearing cages market was valued at USD 4,261.5 million grew at a CAGR of 5.6% between 2015 and 2019. The pandemic situation and geopolitical tensions led to contraction in demand for bearing cages and manufacturers faced supply chain constraints owing to restrictions. This led to contraction in global bearing cages market. However, there was a rebound in 2021 and growth was driven by the usage of bearings in several applications such as mining, automotive, heavy machinery, infrastructure development, power generation and construction. The bearing cages market is expected to grow at a CAGR of 6% to 8% over the period 2021 to 2029 and is estimated to be valued at USD 8,583.5 million in the year 2029.

Growth Drivers

• Growing outsourcing trend of bearing components

Earlier, players used to manufacture bearing components inhouse. However, in recent years, manufacturers have started outsourcing to emerging regions such as China, India due to low cost manufacturing advantage. This is likely to positively impact the bearing cages manufacturers.

• Shift of manufacturing units

While China is considered the global manufacturing hub, recent industry developments such as US-China trade war and global outbreak of Covid-19 led to manufacturers setting up manufacturing units in regions other than China to emerging economies like India which bodes well for bearing cage manufacturers.

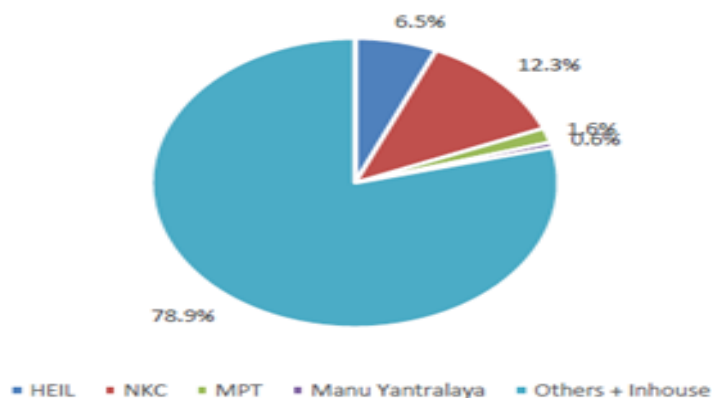
Market overview

The world bearing cage market is estimated at USD 5,230.6 million in 2021. Brass, Steel and Polyamide cages form the majority share of the cages segment constituting an estimated 75% of the market. 60% of this market is estimated to be organized.

Key players and market share

The global bearing cage market is quite fragmented with presence of global and regional players. Some of the key players operating in the global bearing cages market are Nakanishi Metal Works Co Ltd (NKC; Japan), Harsha Engineers International Ltd (HEIL, India), MPT Präzisionsteile GmbH Mittweida (MPT Group GmbH, Germany) and Manu Yantralaya Pvt Ltd (MYPT, India). The share of some of the key players operating in the global organized bearing (brass, steel and polyamide) cages market is stated in the chart below. This includes outsourced players in bearing cages market. Meanwhile, the global bearing cages segment also has a significant share of inhouse-production by key bearing manufacturers which is reflected in the remaining 78.7% of the share in the chart below.

Market share of key players in global organized bearing cages market (USD 2,549.6 million)



Source: RHP, Geojit Research

Promoter and promoter group

Rajendra Shah, Harish Rangwala, Vishal Rangwala and Pilak Shah are the Promoters of the company. Currently, the promoters hold 44,360,749 Equity Shares, equivalent to 57.43% of the pre-Offer issued, subscribed and paid-up Equity Share capital of the company.

Brief Biographies of directors

- ◆ **Rajendra Shah** is the Promoter, Chairman and Whole-time Director of the company.
- ◆ **Harish Rangwala** is the Promoter, Managing Director of the company.
- ◆ **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.
- ◆ **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.
- ◆ **Hetal Ukani** is a Whole-time Director of the company. She has been associated with the company since 2015. She also plays a vital role in managing TPM function of the company.
- ◆ **Neharika Vohra** is the Independent Director of the company. She has over 22 years of experience in teaching and research in the field of organizational behaviour.
- ◆ **Ambar Patel** is the Independent Director of the company. He has served as the managing director of Shilp Gravures Limited since October 29, 1993. He is the Director on Board of The Kalupur Commercial Co-Op Bank Ltd.
- ◆ **Kunal Shah** is the Independent Director of the company. He is associated with AIA Engineering Ltd since December 2002. He was their CFO from 2014 to 2017 and is currently their Executive Director, Corporate Affairs.
- ◆ **Bhushan Punani** is the Independent Director of the company.
- ◆ **Ramakrishnan Kasinathan** is the Independent Director of the company. Previously, he has worked at ACT India, Johnson & Johnson Limited, Best & Crompton Engineering Ltd, SKF India Ltd and Hindustan Zinc Ltd. He is currently associated with Nexdigm Pvt Ltd as a consultant.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY20	FY21	FY22
Sales	885.9	873.8	1,321.5
% change	-	-1.4	51.2
EBITDA	86.0	121.8	169.0
% change	-	42	39
Depreciation	35.2	34.1	35.4
EBIT	50.7	87.7	133.7
Interest	32.8	30.0	24.6
Other Income	13.7	3.0	17.5
Exceptional Items	-	-	-
PBT	31.6	60.7	126.6
% change	-	92	108.5
Tax	9.7	15.3	34.7
Tax Rate (%)	31	25	27
Reported PAT	21.9	45.4	91.9
Adj	-	-	-
Adj. PAT	21.9	45.4	91.9
% change	-	107.4	102.3
Post issue No. of shares (cr)	9.1	9.1	9.1
Adj EPS (Rs)	2.4	5.0	10.1
% change	-	107.4	102.3

BALANCE SHEET

Y.E March (Rs cr)	FY20	FY21	FY22
Cash	57.1	45.3	39.3
Accounts Receivable	238.7	213.9	282.8
Inventories	231.9	267.5	375.7
Other Cur. Assets	77.9	74.2	65.1
Investments	12.5	16.6	17.9
Deff. Tax Assets	10.6	9.9	11.0
Net Fixed Assets	262.0	267.8	282.9
CWIP	3.4	3.3	2.1
Intangible Assets	71.8	74.6	72.8
Other Assets	7.3	7.9	8.7
Total Assets	973	981.	1,158
Current Liabilities	166.7	156.5	206.6
Provisions	10.8	13.6	15.3
Debt Funds	419.1	356.7	384.9
Other Fin. Liabilities	18.4	26.3	23.5
Deferred Tax liability	-13.7	0.9	6.1
Equity Capital	50.0	50.0	77.2
Reserves & Surplus	322.0	377.2	444.6
Shareholder's Fund	372.0	427.2	521.9
Total Liabilities	973	981	1,158
BVPS (Rs)	41	47	57

CASH FLOW

Y.E March (Rs cr)	FY20	FY21	FY22
PBT Adj.	31.6	60.7	126.6
Non-operating & non cash adj.	65.1	63.8	62.4
Changes in W.C	16.2	-3.4	-152.5
C.F.Operating	112.9	121.2	36.5
Capital expenditure	-73.3	-39.8	-49.5
Change in investment	1.1	20.6	-5.6
Sale of investment	-0.8	-2.7	2.8
Other invest.CF	8.5	1.9	0.5
C.F - investing	-64.6	-20	-51.8
Issue of equity	-	-	-
Issue/repay debt	-28.1	-92.4	3.7
Dividends paid	-10.2	-	-
Other finance.CF	-	-	-
C.F - Financing	-38.3	-92.4	3.7
Change. in cash	10.1	8.8	-11.6
Closing cash	23.5	33.0	21.4

RATIOS

Y.E March	FY20	FY21	FY22
Profitab. & Return			
EBITDA margin (%)	9.7	13.9	12.8
EBIT margin (%)	5.7	10.0	10.1
Net profit mgn.(%)	2.5	5.2	7.0
ROE (%)	5.9	10.6	17.6
ROCE (%)	5.6	4.3	6.5
W.C & Liquidity			
Receivables (days)	98	95	69
Inventory (days)	185	220	159
Payables (days)	46	49	50
Current ratio (x)	3.5	3.6	3.5
Quick ratio (x)	1.8	1.7	1.6
Turnover &Levg.			
Net asset T.O (x)	3.4	3.3	4.9
Total asset T.O (x)	0.9	0.9	1.3
Int. covge. ratio (x)	1.5	2.9	5.4
Adj. debt/equity (x)	1.1	0.8	0.7
Valuation ratios			
EV/Sales (x)	3.9	3.8	2.6
EV/EBITDA (x)	39.8	27.6	20.0
P/E (x)	137.1	66.1	32.7
P/BV (x)	8.1	7.0	5.8

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