

November 12, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	ACCUMULATE		HOLD	
Target Price	561		566	
Sales (Rs. m)	17,077	19,348	17,409	19,757
% Chng.	(1.9)	(2.1)		
EBITDA (Rs. m)	2,721	3,348	2,819	3,449
% Chng.	(3.4)	(2.9)		
EPS (Rs.)	21.0	25.8	21.8	26.6
% Chng.	(3.6)	(3.1)		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	13,923	14,798	17,077	19,348
EBITDA (Rs. m)	1,714	2,118	2,721	3,348
Margin (%)	12.3	14.3	15.9	17.3
PAT (Rs. m)	1,114	1,452	1,911	2,346
EPS (Rs.)	12.2	15.9	21.0	25.8
Gr. (%)	(9.6)	30.3	31.6	22.8
DPS (Rs.)	1.0	1.6	2.1	2.6
Yield (%)	0.2	0.3	0.4	0.5
RoE (%)	9.9	11.7	13.7	14.8
RoCE (%)	11.5	13.4	15.9	17.6
EV/Sales (x)	3.2	2.9	2.5	2.2
EV/EBITDA (x)	25.7	20.5	15.8	12.6
PE (x)	40.8	31.4	23.8	19.4
P/BV (x)	3.9	3.5	3.1	2.7

Key Data

HRSH.BO | HARSHA IN

52-W High / Low	Rs.614 / Rs.360
Sensex / Nifty	79,496 / 24,141
Market Cap	Rs.46bn / \$ 539m
Shares Outstanding	91m
3M Avg. Daily Value	Rs.34.78m

Shareholding Pattern (%)

Promoter's	74.61
Foreign	0.56
Domestic Institution	8.85
Public & Others	15.98
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	21.6	28.8
Relative	1.6	11.1	5.2

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Soft Q2; pain persists in Romania & Europe

Quick Pointers:

- India Engineering domestic/export mix stood at 57%/43% (vs 49%/51% YoY).
- Management revised FY25 revenue growth guidance to mid-single digit (from 10%+).

We revise our FY25/26E EPS estimates by -10.0%/-3.6% factoring in continued slowdown in Romania and Europe but upgrade the rating to 'Accumulate' from 'Hold' with a revised TP of Rs561 (Rs565 earlier) owing to the recent correction in stock price. Harsha Engineers International (HARSHA) reported 3.9% YoY revenue growth with EBITDA margin expanding by 149bps YoY to 11.9%. Domestic demand remains resilient, driven by increased cage outsourcing and benefits of China+1; however, large-size cages and Japan customer sales remain below expectations. European market continues to remain slow, while US demand has also softened owing to inventory destocking. Romania's outlook remains challenging, with losses set to continue as efforts to enhance the product mix are yet to yield tangible results. However, China is showing steady improvement, with significant topline and profitability growth expected in FY25.

HARSHA's long-term outlook remains positive given its 1) market leadership in bearing cages, 2) turnaround in Romania & China, 3) greenfield capacity expansion plans, and 4) multiple levers for growth viz. i) bearing cage outsourcing, ii) capex by global bearing players in India, iii) growing demand for bronze bushings, and iv) Japan wallet share gains. The stock is currently trading at a P/E of 31.4x/23.8x/19.4x on FY25/26/27E earnings. We roll forward to Sep'26E and value the stock at a P/E of 24x Sep'26E (26x FY26E earlier). Upgrade to 'Accumulate'.

Strong domestic performance partly offset by weaker export markets: Consol. revenue grew 3.9% YoY to Rs3.5bn (PLe: Rs3.7bn) aided by strong growth in India and China partially offset by continued slowdown in Europe and Americas. Gross margin expanded by 492bps YoY to 46.9% (PLe: 47.3%) against a lower base. EBITDA rose 18.7% YoY to Rs418mn (PLe: Rs519mn). EBITDA margin increased by 149bps YoY to 11.9% (PLe: 14.1%) vs a lower base, led by the gross margin expansion, which was partly offset by higher other expenses (+18.7% YoY to Rs780mn). PAT grew 42.0% YoY to Rs290mn (PLe: Rs353mn) aided by higher other income (up 81.7% YoY to Rs121mn) including forex gain of Rs57mn (vs Rs3mn in Q2FY24).

Healthy margin improvement across segments: Consol. Engineering revenue rose 4.1% YoY to Rs3.1bn within which, domestic sales rose ~20% to Rs1.3bn, exports from India declined ~15% to Rs986mn and foreign subsidiaries sales grew ~11% to Rs789mn. Solar EPC sales rose 1.8% YoY to Rs426mn. Consol. Engineering EBITDA margin rose to 16.2% (vs 13.6% in Q2FY24) as India Engineering margin grew 175bps YoY to 21.5% and foreign subsidiaries margin came in at +0.7% (vs -6.0% in Q2FY24). Solar EPC EBITDA margin rose to 8.7% (vs 3.2% in Q2FY24); however, excluding a one-off gain of Rs15mn, adj. margin stood at 5.3%.

Exhibit 1: Forex gain of Rs57mn (vs Rs3mn in Q2FY24) led to higher other income of Rs121mn (up 81.7% YoY).

Y/e March (Rs mn)	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Revenue	3,526	3,395	3.9%	3,681	-4.2%	3,432	2.7%	6,957	6,875	1.2%
Gross Profit	1,653	1,424	16.0%	1,741	-5.1%	1,759	-6.1%	3,412	2,983	14.4%
Margin (%)	46.9	42.0	492	47.3	(42.2)	51.3	(439)	49.0	43.4	565
Employee Cost	454	415	9.6%	467	-2.8%	464	-2.0%	918	849	8.2%
as % of sales	12.9	12.2	68	12.7	18.8	13.5	(63)	13.2	12.3	85
Other expenditure	780	657	18.7%	755	3.4%	744	4.9%	1,524	1,363	11.7%
as % of sales	22.1	19.4	276	20.5	162.0	21.7	45	21.9	19.8	206
EBITDA	418	352	18.7%	519	-19.4%	552	-24.2%	970	771	25.9%
Margin (%)	11.9	10.4	149	14.1	(223.0)	16.1	(421)	13.9	11.2	273
Depreciation	104	98	6.5%	105	-1.0%	102	1.8%	206	193	6.6%
EBIT	315	255	23.4%	414	-24.0%	450	-30.0%	764	577	32.3%
Margin (%)	8.9	7.5	141	11.2	(232.4)	13.1	(418)	11.0	8.4	258
Other Income	121	67	81.7%	90	34.2%	79	52.9%	200	107	87.6%
Interest	26	25	5.6%	26	0.8%	26	2.3%	52	51	1.6%
PBT (ex. Extra-ordinaries)	409	297	38.0%	478	-14.4%	503	-18.7%	912	633	44.1%
Margin (%)	11.6	8.7	287	13.0	(138.0)	14.7	(305)	13.1	9.2	390
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT	409	297	38.0%	478	-14.4%	503	-18.7%	912	633	44.1%
Total Tax	120	93	29.0%	125	-	143	-16.1%	262	183	43.0%
Effective Tax Rate (%)	29.2	31.2	(202)	26.2	-	28.3	88	28.7	28.9	(22)
Reported PAT	290	204	42.0%	353	-17.9%	361	-19.7%	650	450	44.6%
Adj. PAT	290	204	42.0%	353	-17.9%	361	-19.7%	650	450	44.6%
Margin (%)	8.2	6.0	221	9.6	(136.8)	10.5	(229)	9.3	6.5	280
Adj. EPS	3.2	2.2	42.0%	3.9	-17.9%	4.0	-19.7%	7.1	4.9	44.6%

Source: Company, PL

Exhibit 2: Continued weakness in Romania and other export markets partly offset improved performance in India & China

Segment Performance (Rs mn)	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Engineering & Others - Consolidated										
Revenue	3,100	2,976	4.1%	3,241	-4.4%	3,266	-5.1%	6,365	6,286	1.3%
EBITDA	502	405	23.9%	-	-	624	-19.5%	1,126	893	26.1%
EBITDA margin (%)	16.2%	13.6%	259	0.0%	1,621	19.1%	(289)	17.7%	14.2%	348
PAT	262	194	35.1%	-	-	356	-26.3%	618	464	33.4%
PAT margin (%)	8.5%	6.5%	194	0.0%	846	10.9%	(244)	9.7%	7.4%	234
Engineering & Others - India										
Revenue	2,310	2,265	2.0%	2,424	-4.7%	2,437	-5.2%	4,747	4,657	1.9%
EBITDA	497	448	11.0%	-	-	600	-17.1%	1,097	946	16.0%
EBITDA margin (%)	21.5%	19.8%	175	0.0%	2,151	24.6%	(310)	23.1%	20.3%	280
PAT	306	279	9.6%	-	-	382	-20.0%	688	600	14.7%
PAT margin (%)	13.2%	12.3%	92	0.0%	1,324	15.7%	(245)	14.5%	12.9%	161
Engineering & Others - Foreign Subsidiaries										
Revenue	789	711	11.1%	817	-3.4%	829	-4.8%	1,619	1,629	-0.6%
EBITDA	5	(42)	-112.5%	-	-	24	-77.7%	29	(53)	-154.9%
EBITDA margin (%)	0.7%	-6.0%	664	0.0%	67	2.9%	(220)	1.8%	-3.3%	505
PAT	(44)	(85)	-48.8%	-	-	(26)	67.3%	(70)	(136)	-49.0%
PAT margin (%)	-5.5%	-11.9%	643	0.0%	(551)	-3.1%	(238)	-4.3%	-8.4%	407
Solar-EPC and O&M										
Revenue	426	419	1.8%	440	-3.1%	166	157.1%	592	589	0.6%
EBITDA	37	14	171.3%	-	-	7	419.7%	44	(16)	-380.3%
EBITDA margin (%)	8.7%	3.2%	541	0.0%	866	4.3%	438	7.4%	-2.7%	1,010
PAT	27	10	181.4%	-	-	4	520.5%	32	(14)	-326.4%
PAT margin (%)	6.4%	2.3%	409	0.0%	641	2.7%	375	5.4%	-2.4%	773

Source: Company, PL

Conference Call Highlights

- **FY25 guidance:** Mid-single-digit consol. revenue growth, including high-single-digit growth in India Engineering.
- **Domestic Engineering business:** Domestic cage sales grew ~15% YoY in Q2FY25, with the company seeing increased order intake from customers who have expanded their facilities in India driven by China + 1 and outsourcing from Europe. The positive impact of China + 1 will be even more prominent in Q4FY25 as other customers commence production in India.
- **Harsha is a key supplier to NBC Bearings in India,** and should benefit from NBC's expansion plans given it can fulfill all their technical and commercial requirements by leveraging its diverse bearing cage portfolio.
- **Exports from India:** US demand has softened significantly owing to inventory destocking on the back of lower demand and as customers look to conserve liquidity. However, the correction has started to normalize and should resolve by Q4FY25. Meanwhile, Europe continues to be a challenge as the wind and industrial markets remain subdued. ~43% of standalone Engineering sales in Q2 were from exports, including 20-22% in Europe, 7-8% in USA, 7-8% in China, and the rest in South East Asia and Japan.
- **Large-size bearing cage sales** remain subdued owing to continued softness in the major end user segments of wind and industrials.
- **Romania:** Q2FY25 saw decline in topline and continued operating losses owing to persistent demand softness from wind and industrial sectors. In FY25, subsidiary is unlikely to breakeven and may see revenue de-growth. Company continues to focus on improving product mix towards cages by trying to add new customers as well as negotiating with existing customers to increase offtake. Ideal EBITDA margin is 8-9%.
- **China:** Performance continues to improve steadily, in line with expectations. Profitability has been positive in Q2/H1FY25. Topline and profitability are expected to grow significantly in FY25. Subsidiary's primary market is China; <5% of sales comes from outside China.
- **Bronze Bushings:** Q2/H1FY25 sales stood at Rs200/440mn, slightly above expectations. Management expects to maintain this run rate going forward.
- **Stamped Components:** H1FY25 sales came in at ~Rs255mn. Growth has been satisfactory.
- **Sales to Japanese customers** was flat this quarter and continues to remain below expectations. In addition to facing initial ramp-up challenges when inducting new customers, the company has seen a significant slowdown in order conversion for Japanese customers in Europe and US.
- **Gross margin contracted QoQ** owing to impact of raw material price pass-through and less favourable product mix.
- **Harsha Advantek** greenfield project expansion is on track and expected to be commissioned by Q4FY25. There will be a gestation period for ramp up of demand and product development. Margins will be at a similar level to India Engineering in the medium-to-long term.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	13,923	14,798	17,077	19,348
YoY gr. (%)	2.1	6.3	15.4	13.3
Cost of Goods Sold	7,772	7,805	8,942	9,993
Gross Profit	6,151	6,994	8,135	9,356
Margin (%)	44.2	47.3	47.6	48.4
Employee Cost	1,691	1,850	2,032	2,225
Other Expenses	729	851	973	1,093
EBITDA	1,714	2,118	2,721	3,348
YoY gr. (%)	(9.5)	23.6	28.5	23.0
Margin (%)	12.3	14.3	15.9	17.3
Depreciation and Amortization	393	415	460	511
EBIT	1,320	1,702	2,262	2,837
Margin (%)	9.5	11.5	13.2	14.7
Net Interest	108	104	100	98
Other Income	295	369	420	432
Profit Before Tax	1,508	1,967	2,582	3,171
Margin (%)	10.8	13.3	15.1	16.4
Total Tax	393	515	671	824
Effective tax rate (%)	26.1	26.2	26.0	26.0
Profit after tax	1,114	1,452	1,911	2,346
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,114	1,452	1,911	2,346
YoY gr. (%)	(9.6)	30.3	31.6	22.8
Margin (%)	7.8	9.6	10.9	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,114	1,452	1,911	2,346
YoY gr. (%)	(9.6)	30.3	31.6	22.8
Margin (%)	8.0	9.8	11.2	12.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,114	1,452	1,911	2,346
Equity Shares O/s (m)	91	91	91	91
EPS (Rs)	12.2	15.9	21.0	25.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	8,440	9,613	10,820	11,894
Tangibles	8,327	9,501	10,820	11,894
Intangibles	112	112	-	-
Acc: Dep / Amortization	4,979	5,395	5,854	6,365
Tangibles	4,877	5,288	5,854	6,365
Intangibles	102	106	-	-
Net fixed assets	3,460	4,219	4,966	5,529
Tangibles	3,450	4,213	4,966	5,529
Intangibles	10	6	-	-
Capital Work In Progress	152	178	171	97
Goodwill	718	718	718	718
Non-Current Investments	455	393	395	397
Net Deferred tax assets	(77)	(77)	(77)	(77)
Other Non-Current Assets	246	132	133	169
Current Assets				
Investments	1,961	2,400	2,550	2,800
Inventories	3,537	3,689	4,211	4,771
Trade receivables	3,189	3,243	3,602	4,082
Cash & Bank Balance	1,216	1,494	1,726	2,127
Other Current Assets	319	548	615	716
Total Assets	15,666	17,191	19,266	21,655
Equity				
Equity Share Capital	910	910	910	910
Other Equity	10,842	12,203	13,923	16,035
Total Networth	11,753	13,114	14,833	16,945
Non-Current Liabilities				
Long Term borrowings	63	48	33	33
Provisions	86	102	102	111
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,704	1,654	1,604	1,604
Trade payables	1,329	1,500	1,825	2,067
Other current liabilities	617	660	758	779
Total Equity & Liabilities	15,666	17,191	19,266	21,655

Source: Company Data, PL Research

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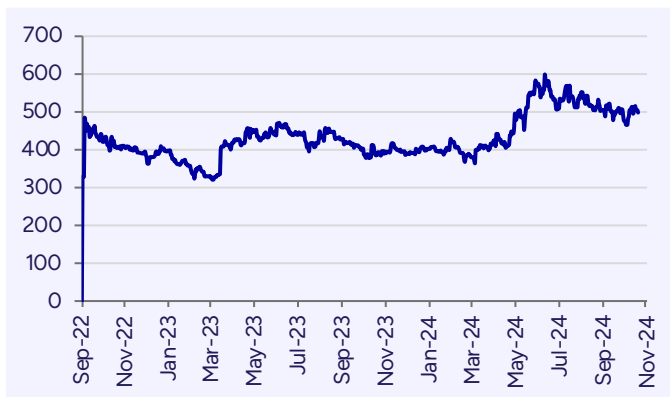
Source: Company Data, PL Research

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Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Hold	566	502
2	08-Aug-24	Hold	565	571
3	08-Jul-24	Hold	436	572
4	17-May-24	Hold	436	438
5	12-Apr-24	Accumulate	441	412
6	09-Feb-24	Accumulate	441	396
7	09-Jan-24	Accumulate	415	395

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,133	7,133
2	Apar Industries	Accumulate	10,353	9,430
3	BEML	Accumulate	4,484	3,664
4	Bharat Electronics	BUY	341	270
5	BHEL	Accumulate	260	230
6	Carborundum Universal	Accumulate	1,601	1,401
7	Cummins India	Accumulate	4,138	3,655
8	Engineers India	BUY	247	187
9	GE Vernova T&D India	Accumulate	1,946	1,693
10	Grindwell Norton	BUY	2,528	2,151
11	Harsha Engineers International	Hold	566	502
12	Hindustan Aeronautics	Hold	4,515	4,257
13	Kalpataru Projects International	Accumulate	1,368	1,242
14	KEC International	Hold	997	949
15	Larsen & Toubro	BUY	4,088	3,408
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,374	7,247
18	Thermax	Reduce	4,186	5,193
19	Triveni Turbine	BUY	719	671
20	Voltamp Transformers	BUY	14,326	10,516

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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We/I, Mr. Amit Anwani- MBA (Finance), Mr. Shirom Kapur- BSc, Passed CFA Level III, Mr. Prathmesh Salunkhe- MBA Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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