

HARSHA ENGINEERS INTERNATIONAL LTD.

RECOMMENDATION : BUY

MARKET PRICE : Rs.331.50 (As on 15th Mar 2023)

TARGET PRICE : Rs.415.00

FACE VALUE : Rs.10

BSE CODE : 543600

NSE CODE : HARSHA



Harsha Engineers International Limited



Harsha Engineers International Ltd. is the largest manufacturer of precision bearing cages in organised sector in India in terms of capacity and operations and amongst the leading manufacturers of precision bearing cages in the world with a market share of approximately 5% to 6% in the organised segment of the global brass, steel, polyamide bearing cages in terms of revenue.

ABOUT THE COMPANY

The Company's principal production facilities are at Changodar and Moraiya, near Ahmedabad in Gujarat in India. The Company also has production facility through subsidiary in Changshu, (China) and step down subsidiary in Ghimbav (Brasov) in Romania. The Company has Capability to manufacture bearing cages with diameters between 20mm to 2,000mm with >7,500 products manufactured since incorporation.

Harsha At A Glance



Largest manufacturer of precision bearing cages in India*



6.5% of the market share in the global organized bearing brass, steel and polyamide cages market^



4 strategically located manufacturing facilities with various warehouses at different locations worldwide – supplying products to over 25 countries across 5 continents



Supplies products to each of the top 6 global bearing manufacturers^^



Capability to manufacture bearing cages with diameters between 20mm to 2,000mm with >7,500 products manufactured since incorporation



Diversifying into complex and specialized precision stamped components



50-60%
of domestic
market share



India



China



Romania

Schaffler AG
JTEKT

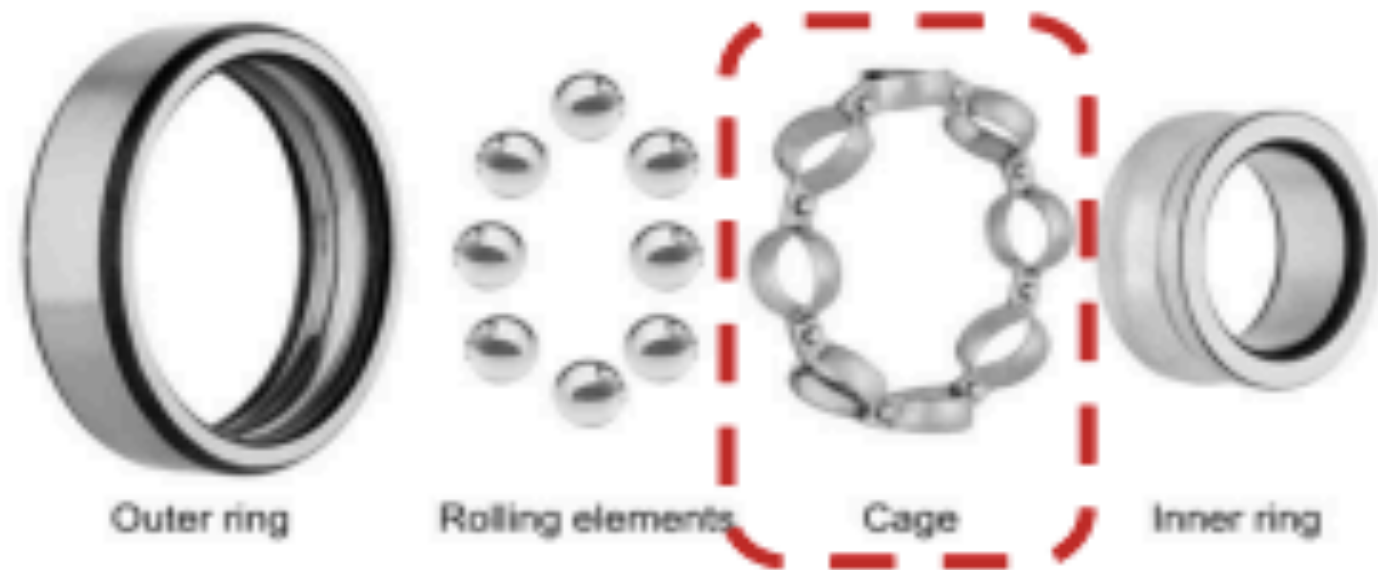
NTN
SKF

NSK
TIMKEN



Bearing cages | ~US\$5.2bn market expected to grow at ~6.4%

Bearing cages form an important component within Bearings



Bearing Cages are critical components requiring **highest lead time, technical & tooling** expertise



Separate rolling elements, reduce friction & heat generated in bearing



Keep the rolling elements evenly spaced optimizing load distribution on the bearing



Cages offer high rigidity, strength

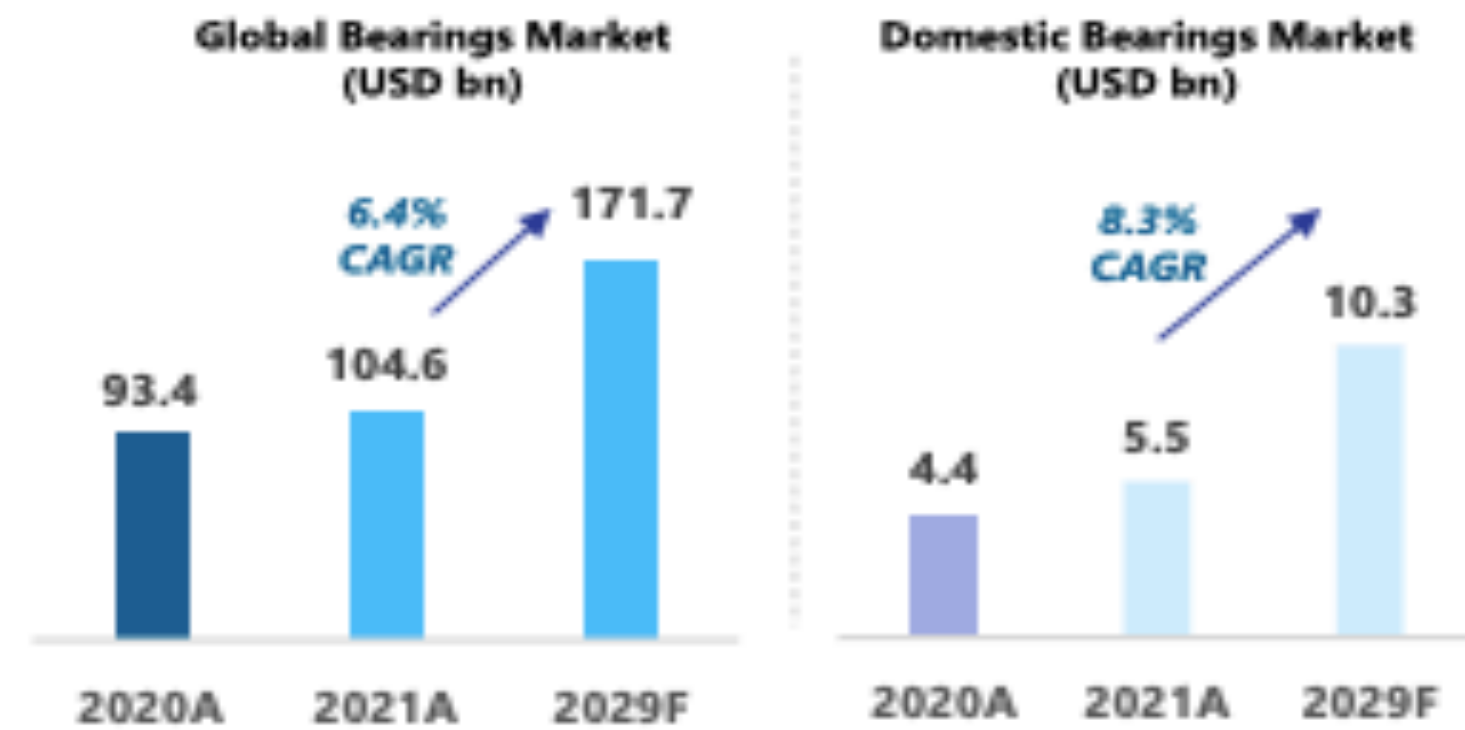


High heat resistant operating conditions



Small portion of total cost of bearing - The global bearing cages is estimated at about 5% of the global bearings market

Bearing cages have increasing usage across key fast-growing end user industries



Breakup of Bearing Market based on Application (USD bn)

Segment / Market Size	2022 F	2029 F	% share 2021	CAGR %
Automotive	24.8	37.0	22.5%	5.8%
Aviation & Aero	21.9	34.0	19.7%	6.5%
Railways	19.5	30.9	17.6%	6.7%
Construction	15.2	24.2	13.6%	6.8%
Mining	12.3	19.3	11.1%	6.6%
Electronics	10.0	15.5	9.0%	6.5%
Agriculture	6.2	9.5	5.6%	6.3%

High growth bearing cages market

Global Bearing Cages Market (USD mn)



India market is expected to grow at a **CAGR of 8.3% during 2021 to 2029.**



Supplies to each of the top 6 global bearing manufactures



Global bearing companies have **steadily increased outsourcing** manufacture of bearing cages



Given the **complexity of bearing cages production**, customers prefer continuing with **reliable vendors** for a long period for **consistency of quality**

Comprehensive solution provider offering diversified suite of precision engineering products

Bearing Cages

Different designs of bearing cages with diverse applications



Taper Roller



Deep Groove



Angular Contact Ball



Thrust Roller



Spherical Roller



Cylindrical Roller



Sand Casting



Bronze
Bushing



Precision Stamping
Components

- ✓ Railways
- ✓ Industrial machines
- ✓ Pumps
- ✓ Compressors
- ✓ OEMs
- ✓ Engine applications

- ✓ Crushers
- ✓ Steel mills
- ✓ Thermal turbines
- ✓ Windmills
- ✓ Agricultural machines
- ✓ Automotive parts

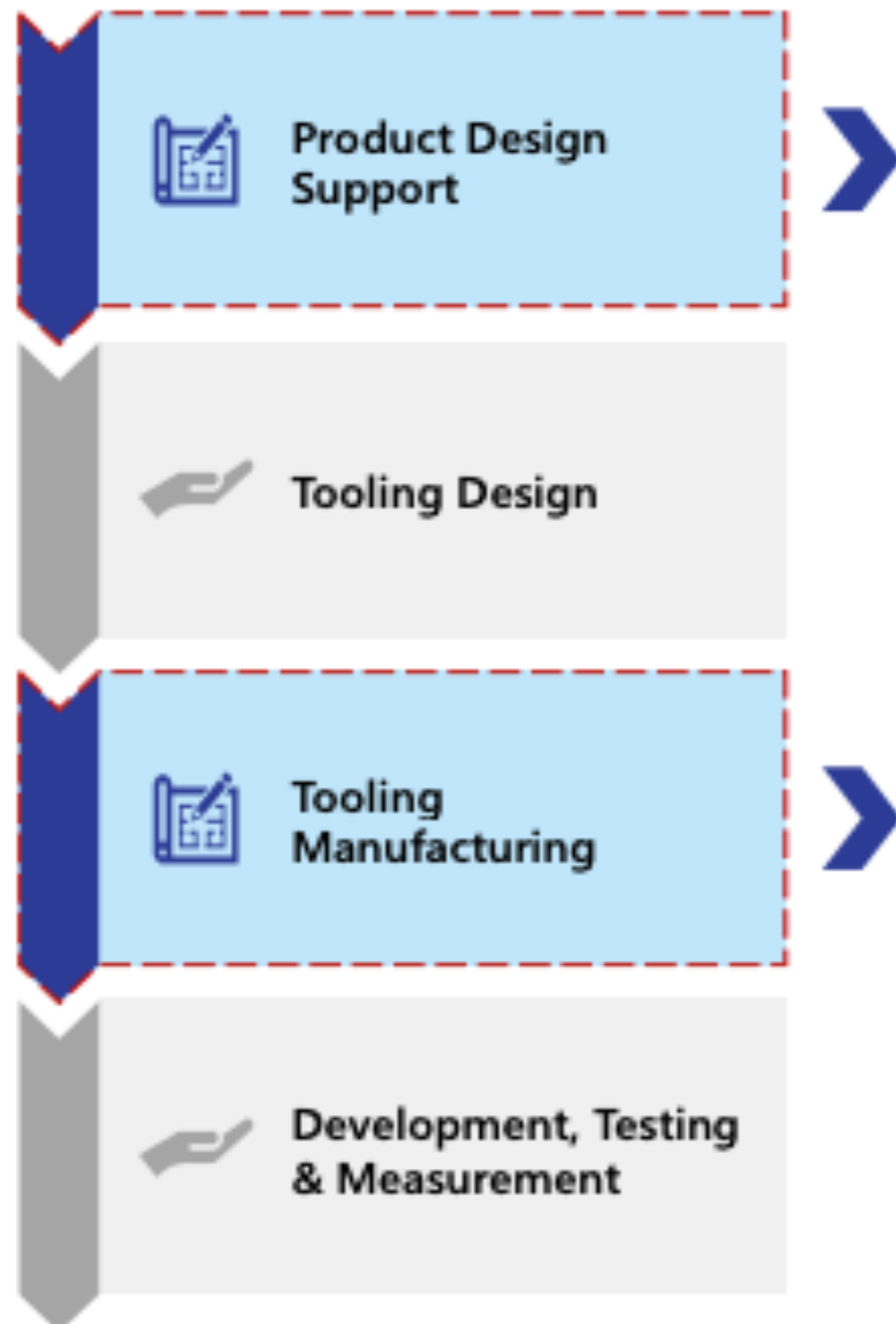
- ✓ Chemical machinery
- ✓ Utilities
- ✓ White appliances
- ✓ Chemical machinery
- ✓ General industries
- ✓ Blowout preventers

- ✓ Extruders
- ✓ Gearboxes
- ✓ Offshore drilling
- ✓ Oil rigs
- ✓ Traction motors for railways

- ✓ Railway Seal
- ✓ AC Compressor Head
- ✓ Bronze Bushing for Wind Gear Box
- ✓ Chassis Parts
- ✓ Engine Drive
- ✓ Clutch Components
- ✓ Gear Shifter Assembly Parts

Expertise in tooling, design development and automation

Full-service capabilities under one roof



Tooling Design

- Expertise to design and develop **advance tooling** inhouse which enables HEIL to manufacture **precision products**
- Engaged with customers to in product development process from **design stage**

Tool Manufacturing

- Comprehensive tooling, testing and measurement infrastructure
- **Dedicated tool production facilities** at Changodar have strengthened HEILs ability to meet customer demands

Process Design & automation

- **Decades of experience** – technologically driven manufacturing process enables HEIL to provide solutions in a **cost-effective manner**
- In-house automation has helped to **optimize O&M expenses, reduce production cycle time** and **minimize capex**
- *Indigenously designed vision camera system detects defects that are not possible to detect with naked eye*

Product Development

- Expertise in product development - product development cell and innovation centre



Business Update



- The top line of Q3 is primarily impacted due to continued reduction in metal prices; impact of Europe slow down in Harsha Romania (due to energy crisis) and also to some extent in Harsha India. The Harsha China top line was also impacted in Q3 due to strict zero Covid policy implementation in China during the said Quarter, which was withdrawn only in January 2023.
- The Company has also witnessed a temporary slow down in the offtake of Bronze Bushes in wake of softening of wind market in Europe.
- The company is on track in as much as its long term key Growth areas are concerned including increased wallet share of Large Sized Bearing Cages, increasing Wallet Share of Japanese Customers, capitalizing on China+1 opportunity for the increasing the overall market share of Bearing cages and focusing on new business vertical namely Bronze Bushes and precision stamped components.
- Actual Capex (including WIP) for Q3 is INR 2562 Lacs and 9 months is INR 5102 Lacs.
- Harsha Engineers B.V. -Netherland has been merged with the Company effective from 14th November 2022. Further the minority shareholding of Harsha Romania has also been acquired by the Company and thus, Harsha Romania is now a direct WOS of the Company.

Utilisation of IPO Proceeds as on 31st December 2022

Particulars	Amount (₹ Lakhs)
Total IPO Proceeds	45,500
Less: IPO Expenses	(2,560)
Net Proceeds as per Prospectus	42,940
Less: IPO Expenses (excess contingencies hold)	-
Net Proceeds available	42,940

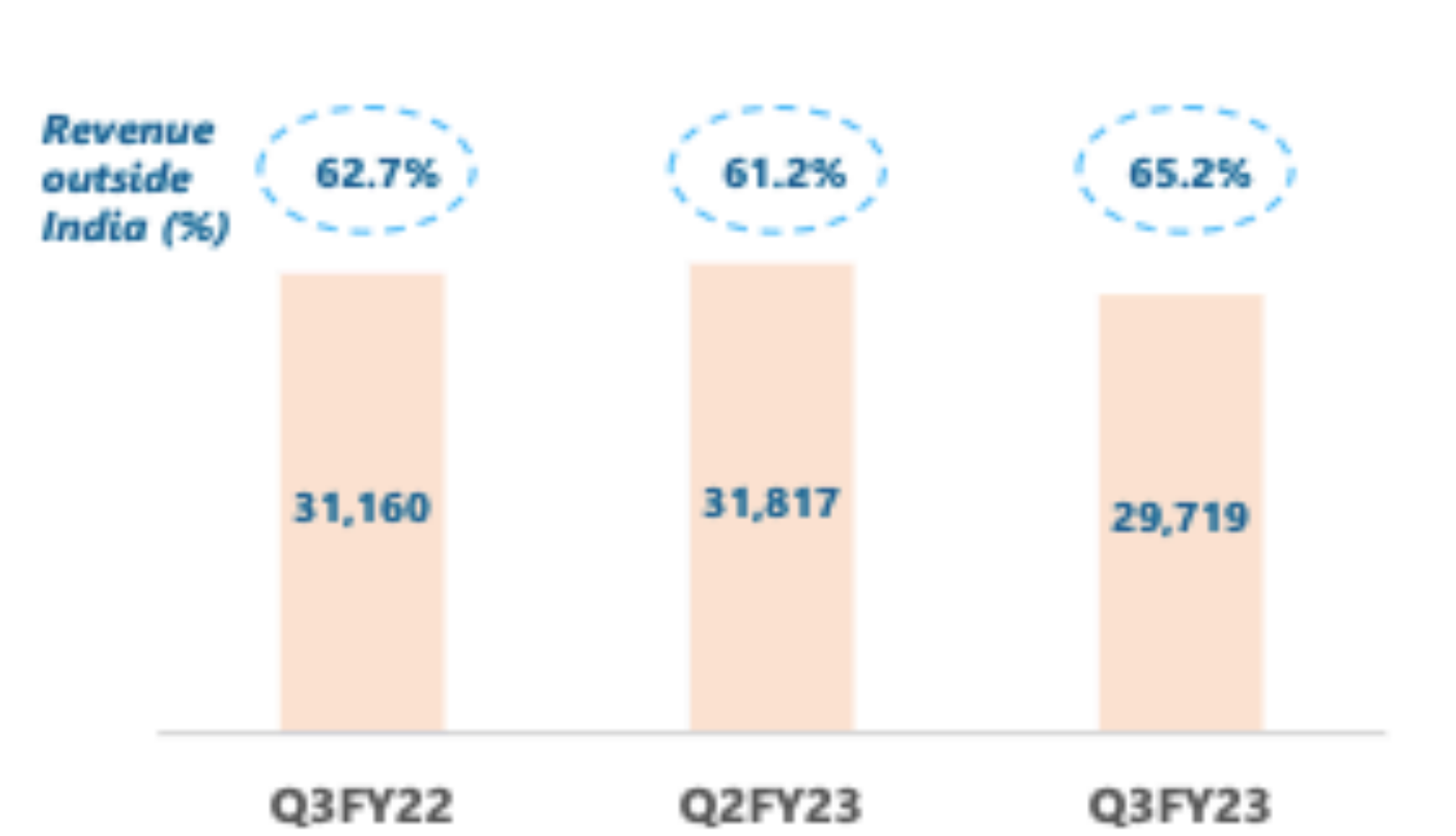
		(₹ Lakhs)		
Sr. No	Particulars	Amount as proposed in the Offer Document	Amount Utilised	Unutilised Amount
1	Pre-payment or scheduled repayment of a portion of the existing borrowing availed by the Company	27,000	27,000	-
2	Funding capital expenditure requirements towards purchase of machinery	7,795	473	7,322
3	Infrastructure repairs and renovation of our existing production facilities including office premises in India	712	153	559
4	General corporate purposes	7,433	7,433	-
	Total	42,940	35,059	7,881

Financial Highlights

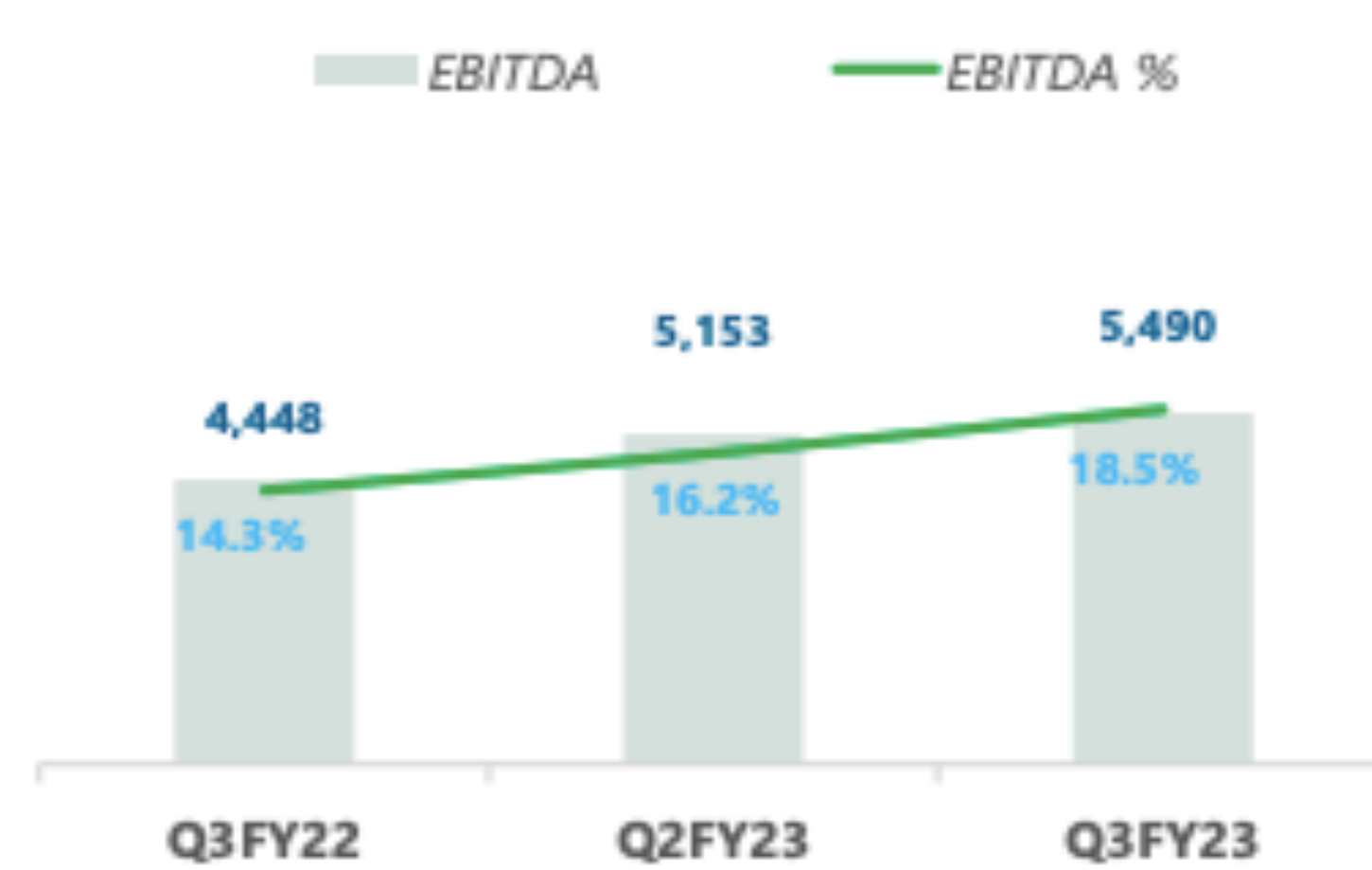


₹ in Lakhs

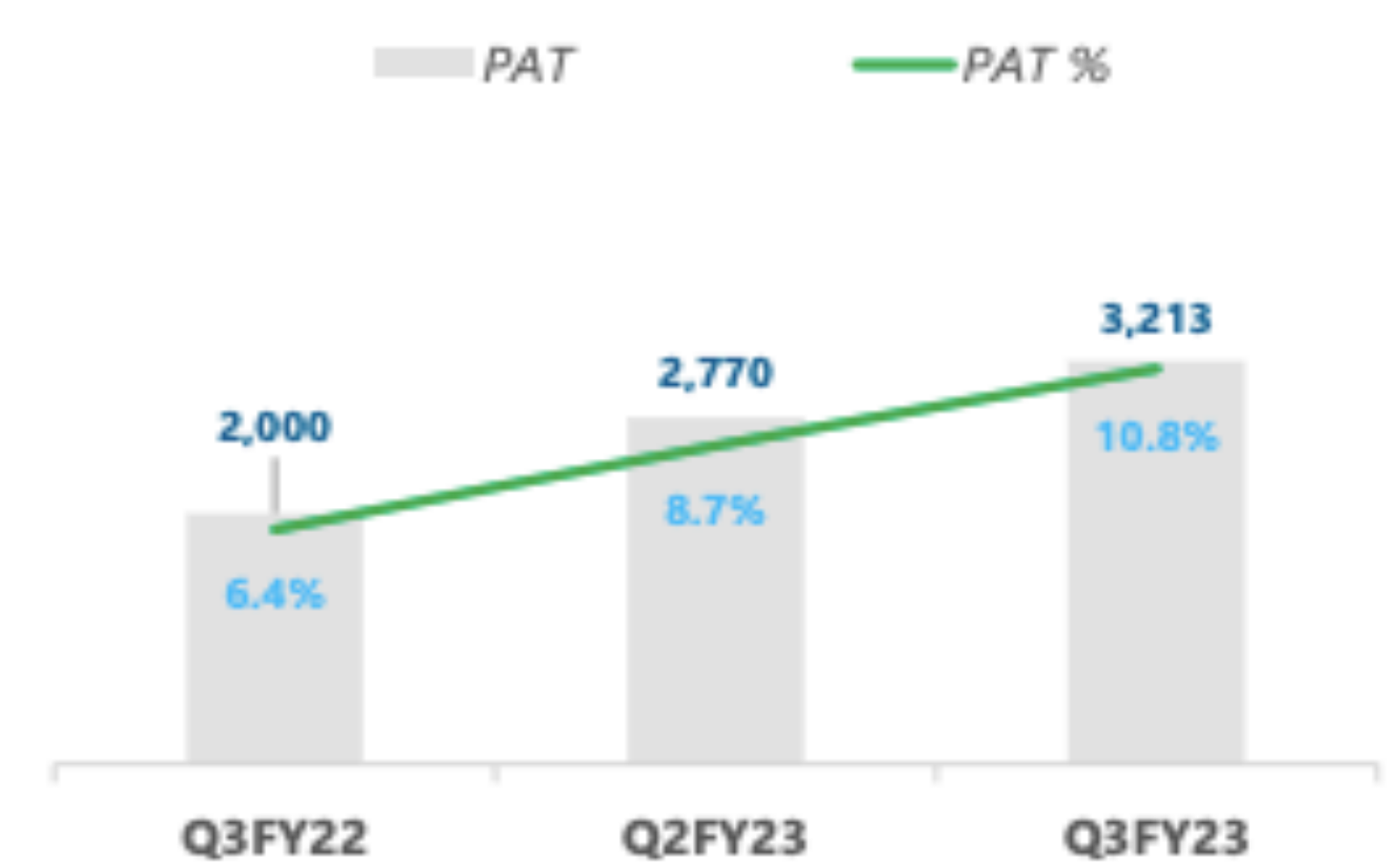
Revenue - Engineering CONSOLIDATED



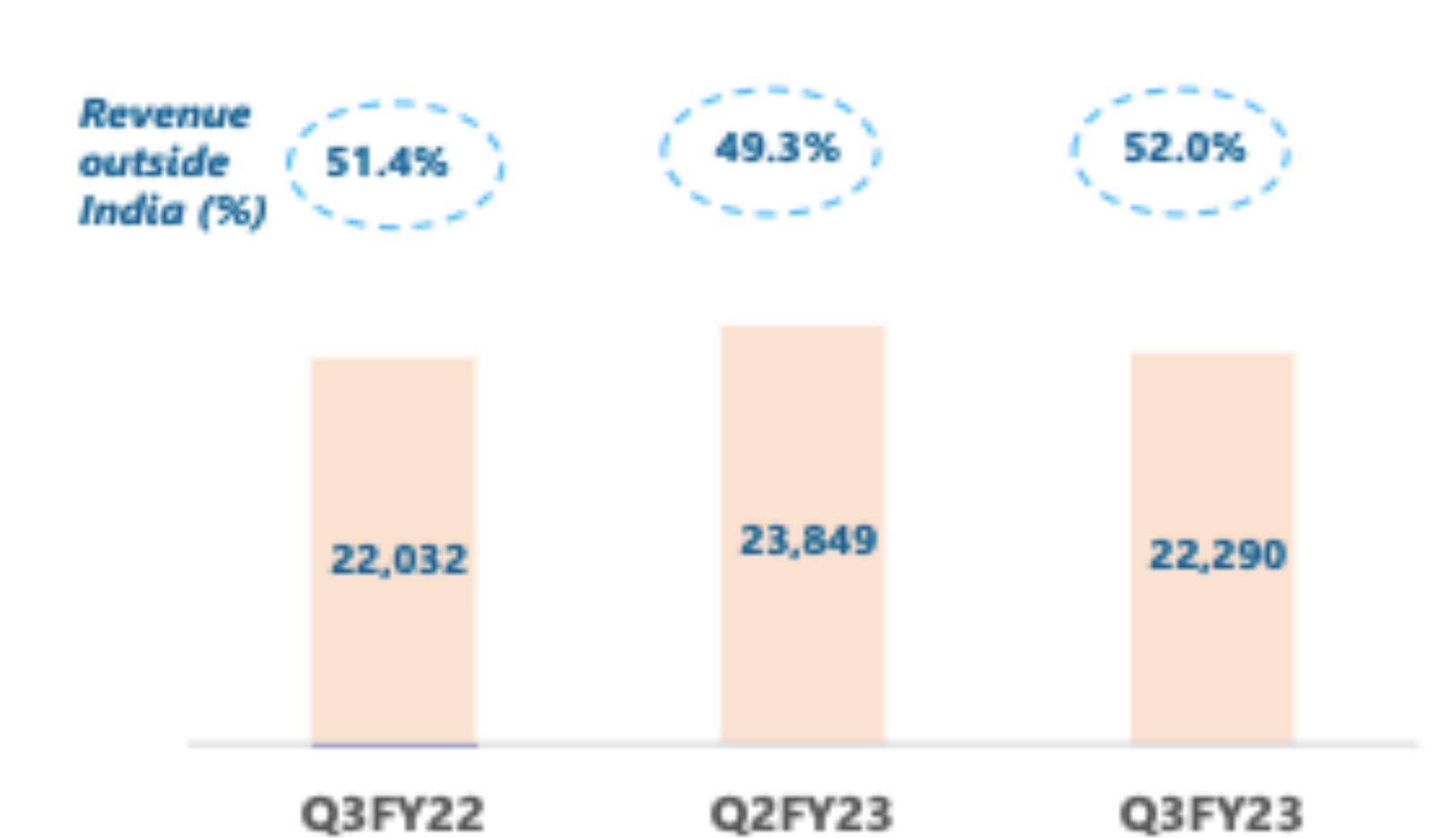
EBITDA - Engineering CONSOLIDATED



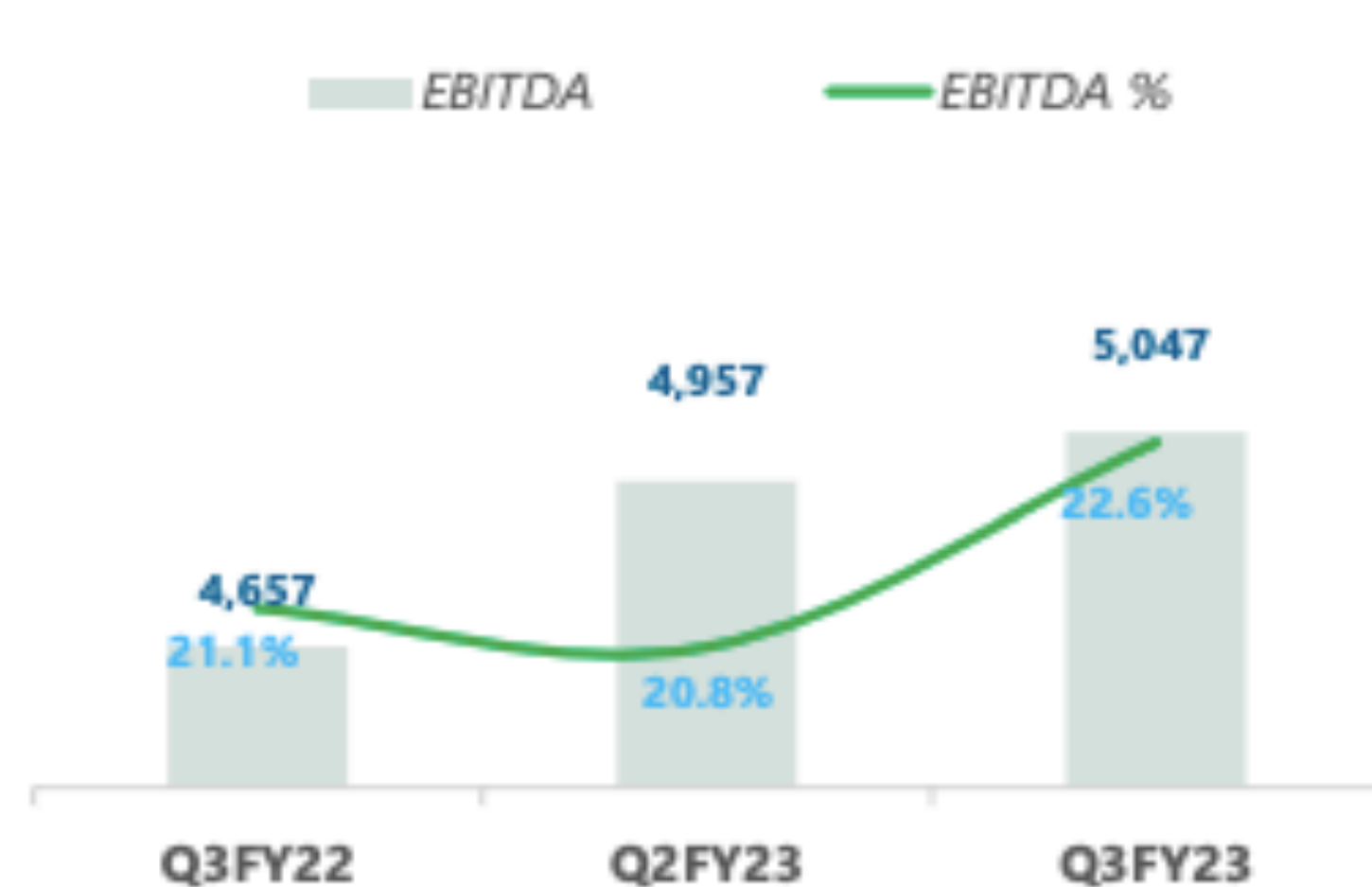
PAT - Engineering CONSOLIDATED



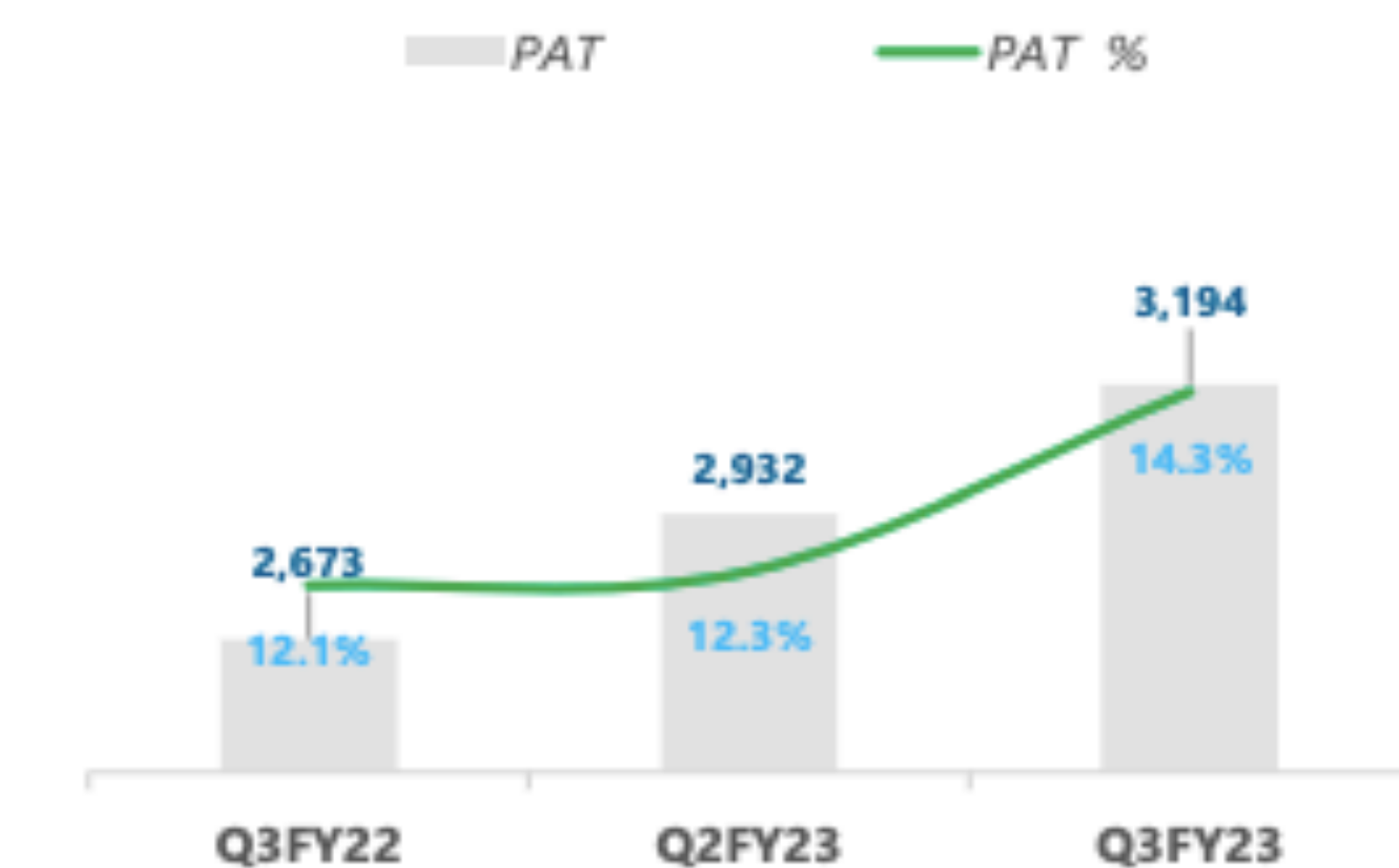
Revenue - Engineering INDIA



EBITDA - Engineering INDIA



PAT - Engineering INDIA





Yearly Results

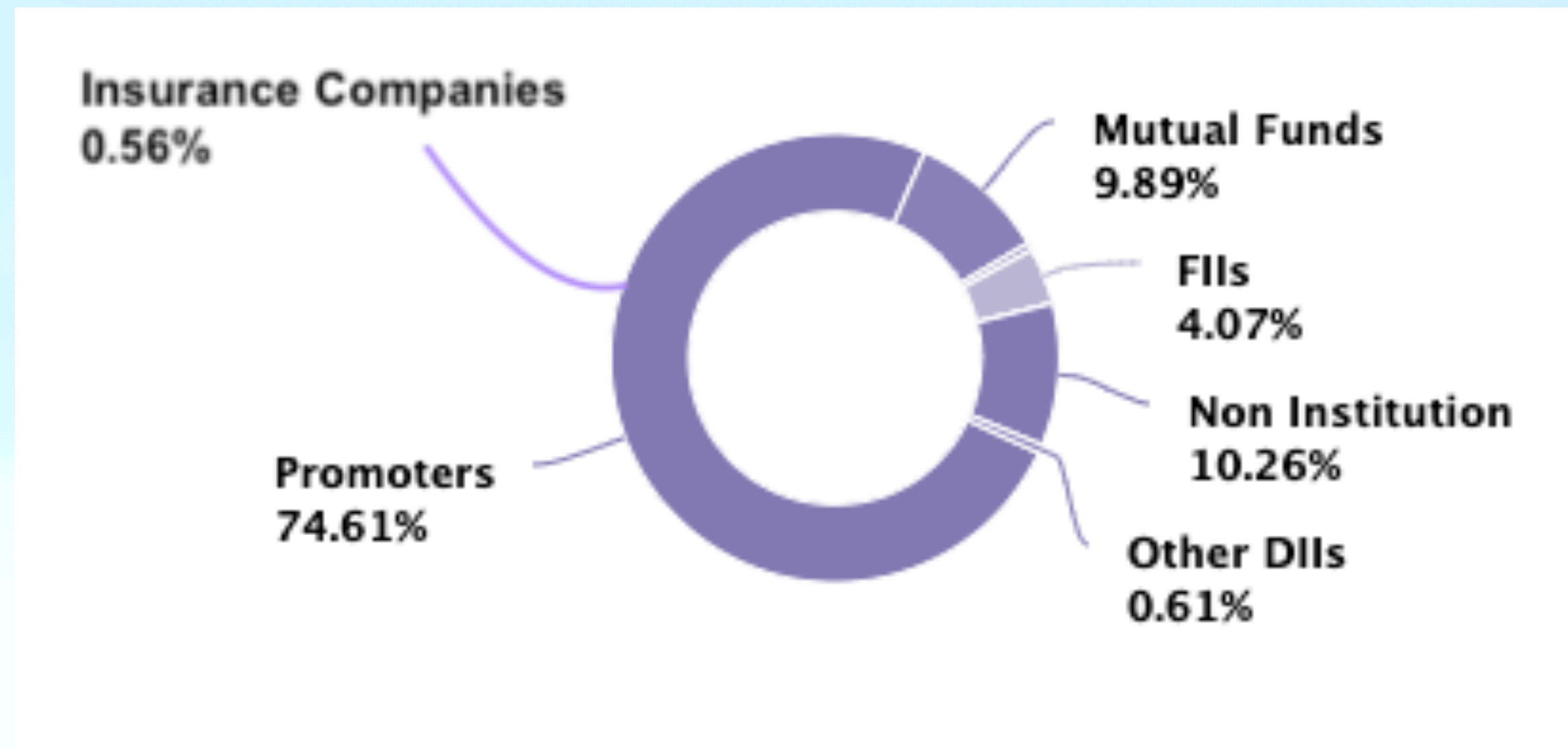
Indicator	Mar-2022	Mar-2021	Mar-2020
Total Revenue Annual Cr	1339	876.7	899.5
Operating Revenues Annual Cr	1321.5	873.8	885.9
Other Income Annual Cr	17.5	3	13.7
Operating Expenses Annual Cr	1152.5	751.9	799.9
Operating Profit Annual in Cr	169	121.8	86
Operating Profit Margin Annual %	12.62%	13.90%	9.56%
Total Expenses Annual Cr	1212.4	816	867.9
Other Expenses Annual Cr	212.9	158.8	156.4
Employee Expenses Annual Cr	158	146.4	149
Cost Of Power Purchased Annual Cr	0	0	0
Cost Of Fuel Annual Cr	0	0	0
EBIDT Annual Cr	186.5	124.8	99.6
EBIDT Annual margin %	13.93%	14.24%	11.08%
Interest Annual Cr	24.6	30	32.8
Depreciation Cr	35.4	34.1	35.2
Profit Before Tax Annual Cr	126.6	60.7	31.6
Tax Annual Cr	34.7	15.3	9.7
PAT Before ExtraOrdinary Items Annual Cr	91.9	45.4	21.9
Minority Interest Income Annual Cr	0	0	0
Net Profit Annual Cr	91.9	45.4	21.9
Net Profit Margin Annual %	6.95%	5.20%	2.47%
Basic EPS Annual Rs	11.9	5.9	3.5



Key Financial Ratios

Indicator	Mar-2022	Mar-2021	Mar-2020
Book Value Per Share Annual Rs	67.6	85.4	74.4
RoA Annual %	7.93%	4.63%	2.25%
ROE Annual %	17.61%	10.63%	5.88%
ROCE Annual %	22.15%	16.49%	12.88%
Profitability Ratio			
EBDIT Annual Margin %	14.11	14.28	11.24
EBIT Annual Margin %	11.44	10.38	7.26
PBT Annual Margin %	9.58	6.94	3.56
Net Profit Margin Annual %	6.95	5.2	2.47
Asset Turnover Ratio Annual		0.6	
Liquidity Ratio			
Current Ratio Annual	1.6	1.4	1.3
Quick Ratio Annual	0.8	0.8	0.8
Dividend Payout to NP Annual %	0	0	0
Dividend Payout CP Annual %	0	0	0
Earning Retention Annual %	0	0	0
Cash Earning Retention Annual %	0	0	0
Cash Earning Retention Annual %	0	0	0
Valuation Ratio			
EnterpriseValue Annual Cr	0	0	0
EV Per Net Sales Annual			
Price To Book Value Annual			
EV Per EBITDA Annual			
Market Cap Per Sales Annual			
Retention Ratio Annual %	0	0	0
Earnings Yield Annual	0	0	0
Total Debt to Total Equity Annual	0.7	0.8	1.1

Shareholding Pattern an on Dec'22



Summary

- ❖ In Q3 of FY'23, the Company's Net Sales were Rs.300.68 crs in Dec'22. However, the Net Profits stood as Rs.31.74 crs in Dec'22.
- ❖ As per healthy performance and fine financials, the Company is available at a fair price of Rs.331.50 with its 52 week low at Rs.319.60 and 52 week high at Rs.527.65.
- ❖ Viewing that the Promoters are holding majority stake around 74.61% as well as its sound valuations, indicates that the Management is growth oriented.
- ❖ In Public Shareholding as on Dec'22, the FIIs and the Other DIIs collectively held 4.68% stake. Whilst, the Mutual Fund Houses own 9.89% holdings in the Company.
- ❖ As a reaffirming fact, Harsha Engineers International Ltd. is held by NIPPON INDIA MF, HDFC MF, DSP MF, SBI MF, SUNDARAM MF, WOC MF, FRANKLIN TEMPLETON MF, MAHINDRA MANULIFE MF, ICICI PRU MF, UTI MF, BANK OF INDIA MF and a few more.
- ❖ On consolidated basis, the Company registered Return on Equity (ROE) and Return on Capital Employed (ROCE) around 17.61% & 22.15% respectively as on Mar'22.

Disclosure

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