

Issue Details

Issue Opens	14 th Sep, 2022
Issue Closes	16 th Sep, 2022
Issue Size (in Rs. Crs)	755
Issue Size (Shares)	2,40,53,265 – 2,28,86,595
Authorised Shares	10,00,00,000
Issued, Subscribed and Paid Up Sh. Pre offer	7,72,48,410
Offer for Sale	300 Cr
Face Value	10.00
Lot Size (Sh)	45
Price Band	Rs 314 - 330
Issue Type	Book Building
Book Value (in Rs.)(FY22)	67.56
BRLMs	Axis Capital Ltd, Equirus Capital Pvt Ltd, JM Financial Ltd
Registrar	Link Intime Private Ltd
Listing Venue	BSE, NSE
Finalization of Allotment	On or About 21 st Sep, 2022
Initiation of refund	On or About 22 nd Sep, 2022
Credit to Demat Account	On or About 23 rd Sep, 2022
Listing	On or About 26 th Sep, 2022

Issue Structure

Categories	Allocation
QIBs	50%
Non-Institutional	15%
Retail Portion	35%
Total	100%

Shareholding Pattern

Categories	Pre issue	Post Issue
Promoter & Promoter Group	99.70	74.61
Public	0.30	25.39
Total	100.00	100.00

Recommendation
SUBSCRIBE
Company Background

Harsha Engineers International Ltd (HEIL) is one of the largest manufacturers of precision bearing cages, in terms of revenue, in organized sector in India, and amongst the leading manufacturers of precision bearing cages in the world. Its market share is estimated to be around 50%-60% in the Indian bearing cages market and also accounted for a share of 6.5% in the global organized bearing brass, steel and polyamide cages market in 2021. HEIL's wide range of bearing cages starts from 20mm to 2,000 mm in diameter and finds application in automotive, railways, aviation & aerospace, construction, mining, agriculture, electronics, renewables sector etc.

Objects of the Issue

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

Key Points
Key Points

- HEIL is a part of the Harsha Group which was established in 1986 and has over 35 years of operating history in the engineering business. HEIL was incorporated in 2010 as Harsha Abakus Solar Private Limited.
- HEIL is a technology driven company with a strong focus on quality, design and tool development, which has allowed them to develop products suited to their customers' requirements having got the expertise to design and develop advance tooling in-house which enables them to manufacture precision bearing cages and complex and specialised precision stamped components.
- HEIL has four strategically located manufacturing facilities at Changodar, Moraiya, near Ahmedabad, Changshu, China and Ghimbav Brasov in Romania. The combined bearing cages capacity of all our manufacturing units is 1,097.87 million pieces per annum as on March 31, 2022.
- As of March 31, 2022, they have been able to manufacture more than 7,205 bearing cages and more than 295 other products for customers in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors, allowing them to meet changing customer requirements.

Recommendation --

The IPO is valued at a lower PE band of 19.55 and an upper PE band of 20.55x which is at a discount to its listed peers like Timken India, SKF, Rolet Rings and Sundaram Fasteners. Taking into consideration its strong business acumen and deep rooted relationship with both its domestic and international customers, the company is focused to meet its long term growth objectives. Further the electrification of vehicles shall lead to an increase in demand for precisions. We would recommend a "SUBSCRIBE" to the issue.

Particulars (₹ Crs.)	FY19	FY20	FY21	FY22
Net Sales	122.52	885.85	873.75	1321.48
Other Income	2.89	21.32	7.08	17.91
Operating Profit	-27.48	99.63	124.82	186.53
Interest	10.80	32.80	29.99	24.56
PBDT	-38.27	66.83	94.83	161.98
Depreciation	0.35	35.24	34.11	36.36
Profit Before Tax	-38.62	31.59	60.72	126.62
Provision For Tax	-11.21	9.68	15.28	34.68
PAT	-27.41	21.91	45.44	91.94
EPS	-13.70	4.38	9.09	11.90

Key Business Strategies

Enhancing its market leadership in bearing cages and expanding the customer base

- The bearings market is estimated to grow at a CAGR of 6% to 8% over the period 2021 to 2029 to USD 171.7 Bn lead by demand from mining, automotive, heavy machinery, infrastructure development, power generation and construction. Keeping these factors in mind, HEIL has started to expand their business into large diameter brass and steel bearing cages.
- HEIL aims to further expand their customer base in China as they are considered a versatile and consistent player in the bearing cages segment. With the setting up of this new unit in China and the continued support of technical and tooling services from the Indian production facilities, their aim is to focus on increased business from key Chinese customers.
- HEIL further aims to expand into the Japanese bearing market by supplying directly to their Japanese customers at their locations in Japan. In the past, they have been supplying to Japanese customers at their locations in India and to their locations outside of Japan.
- The strengthening of the marketing and management team at Romania, has led to HEIL catering to additional European customers.

Retaining and strengthening the technological leadership through continued focus on development and automation

- HEIL aims to digitalize their operations by implementing IoT system to connect the relevant machines or equipment and improve the operational process performance of their machines or equipment by having the right analysis of downtime or reasons for loss of productivity.
- HEIL further aims to continue expanding their development, engineering, tool design and manufacturing, process improvements, lean manufacturing techniques, and automate them to optimize manpower to ensure zero defect products.
- HEIL's dedicated product development centre and tool production facilities at Changodar has strengthened their ability to meet customer demands in accordance with delivery schedule. Over the past 5 years the product development and innovation centre has developed more than 1,217 products for different bearing (including ball bearing, brass bearing, cylindrical roller bearing, large size bearing, polyamide bearing, spherical roller bearing), taper and bronze bushings and more than 58 other products including speciality components.
- With their expertise in designing and manufacturing complex tooling components in house, HEIL has engaged with their customers, developing and manufacturing over 7,500 types of products allowing them to meet changing customer requirements.

Aiming to grow the stamping and specialized component segment

- HEIL plans on capitalizing on the existing niche and low volume high value products in the stamping and special component segment and gradually scale up its business over next 3 to 5 years. They plan on achieving this growth in 2 phases i.e. (i) manufacturing specialized parts/components and supplying to auto component assembly manufacturers and thereafter; (ii) change in supply process by manufacturing assemblies as composite component and supply directly to OEMs.
- To accomplish this objective, HEIL has set up a dedicated stamping unit at their production unit at Moraiya and have installed certain machinery with tools for complex stamping at their primary manufacturing units. Further, they are in the process of developing complex compressor parts and certain other components which are used in the compressor industry and focus on manufacturing of bearing seals and stamping

Increasing operational efficiencies to improve returns

- HEIL has adopted **Total Productive Maintenance ("TPM")** initiative across their plants in India to improve their operational efficiency and the reliability of their manufacturing processes by lowering break downs and rejections.
- TPM which was initially adopted in 2011, has helped them to ensure high quality, low costs and on-time delivery for their customers. They intend to continue implementing TPM initiatives across their Indian production facilities and extend the same to their facilities in China and Romania.
- HEIL has recently introduced the '**One Harsha Project**' to create a strategic business unit structure and thereby increasing the efficiency of their operations.

Focusing on the Electric Vehicles segment

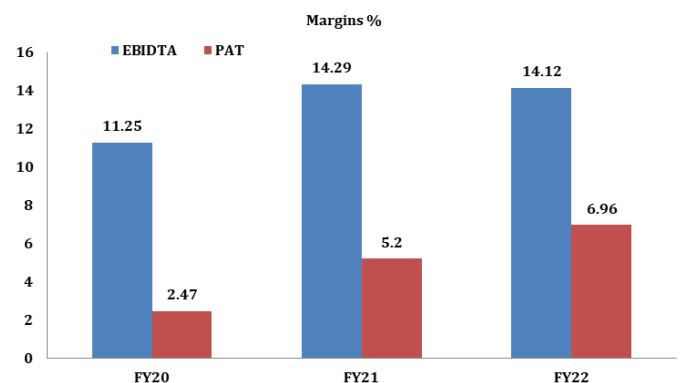
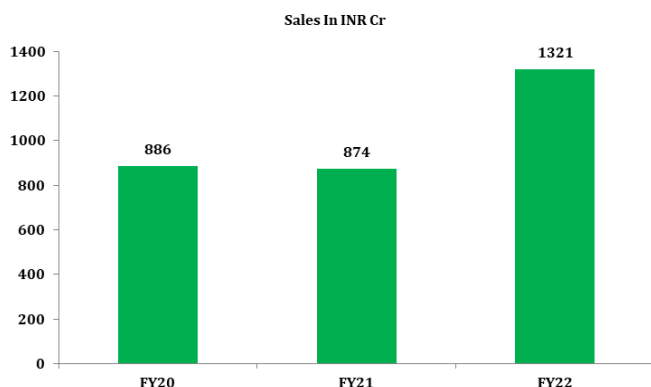
- As the automobile industry gradually shifts to EVs', the need for more silent and lighter bearings, and its components, will be felt, and the demand is likely to increasingly shift towards precise dimension and dirt-free bearing, steel and polyamide cages as a probable solution at a premium value.
- HEIL's in house tool and design facilities coupled with their latest machinery, specialised cleaning equipment and software would enable them to manufacture precision stamping components and steel cages suited for the electric vehicle segment including as import substitutes.
- In addition, HEIL has also invested in enhancing their tool room and design capacity for faster cage mould development to focus more on developing polyamide cages in different categories to meet the increased demand from the electric vehicles space in the coming years.
- With the growing penetration of EVs in the automotive market, the volumes of bearings are expected to grow at a CAGR of 5.2% during CY 2021 to CY2030 and electric vehicle penetration is expected to impact the volume of bearings demand by 0.7% in volumes in the automotive market.

Aiming to grow by opportunistic inorganic acquisitions and partnerships with customers

- Over the years, HEIL has focused on moving up this value chain of complexity and specialization by enhancing their manufacturing capabilities to produce complex precision components for several of their customers.
- As their technological capabilities evolve, HEIL aims to increase their focus on further diversifying their product portfolio and providing high margin complex precision components to their customers across the world.
- HEIL seeks to develop strategic partnerships with their key customer groups for innovation and development of new products and supply them to new geographies. It has recently partnered with a global customer to manufacture their bronze bushings requirements and have significantly grown their business from the client in a span of a couple of years.
- HEIL is aiming to enhance its technological capabilities through inorganic acquisitions as well as through partnering with global technology leaders. It intends to further pursue such strategic alliances and inorganic growth opportunities, with a particular focus on technologically innovative acquisitions that may provide better access to technology with respect to their existing products and allow them to diversify their product and customer base opportunistically.

Tackling competition effectively

- The global bearing cages market is fragmented with the number of global and regional companies. Some of the leading bearing cage companies which operate in the same industry as HEIL include Nakanishi Metal Works Co. Ltd. (NKC Japan), MPT Präzisionsteile GmbH Mittweida and Manu Yantralaya (P) Ltd.
- With its ability to provide customized and innovative solutions to global bearing players, HEIL has established a strong market share for itself in the Indian and global subcontinent in the outsourced brass, steel and polyamide segment.
- HEIL also has robust tooling capabilities and offers a diverse product portfolio of bearing cages with respect to size and material type. It has an established global presence, specifically in low-cost manufacturing locations, which aids their access to different markets in a cost-effective manner.



Source: Company's RHP, Ace Equity, AUM Research

Financial Highlights				
Particulars (Rs. Crs)	FY19	FY20	FY21	FY22
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EPS	-13.70	4.38	9.09	11.90
Share Capital	20.00	50.00	50.00	77.25
Share Warrants Outstanding	-	27.25	27.25	0.00
Total Reserves	-18.59	294.73	349.93	444.61
Shareholders' Funds	1.41	371.98	427.18	521.86
Secured Loans	33.75	127.64	101.52	95.83
Unsecured Loans	-	-	-	42.02
Total Non-Current Liabilities	22.71	127.79	122.70	160.56
Total Current Liabilities	170.88	473.47	432.33	475.84
Total Liabilities	195.00	973.24	982.21	1158.25
Net Block	0.52	333.79	342.41	355.69
Capital Work In Progress	-	3.39	3.34	2.11
Total Non-Current Assets	3.94	355.53	364.00	378.22
Total Current Assets	191.07	617.71	618.22	780.03
Total Assets	195.00	973.24	982.21	1158.25
Cash Flow From Operations	29.63	112.91	121.16	36.47
Cash Flow From Investing Activities	14.91	-64.57	-19.96	-51.83
Cash Flow From Financing Activities	-55.47	-38.25	-92.43	3.73
Net Cash Inflow/(Outflow)	-10.93	10.08	8.77	-11.63
Opening Cash Balance	11.70	0.77	24.28	33.05
Translation Adjustments	-	13.43	-	-
Closing Cash Balance	0.77	24.28	33.05	21.42

Aum Capital RESEARCH DESK

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