



Issue Highlights

Industry	Capital Goods
Offer for sale (Shares)	9,090,909
Fresh Issue (Shares)	13,787,879
Net Offer to the Public	22,878,788
Issue Size (Rs. Cr.)	718-755
Price Band (Rs.)	314-330
Offer Date	14-Sep-22
Close Date	16-Sep-22
Face Value	10
Lot Size	45

Issue Composition

	In shares
Total Issue for Sale	22,878,788
QIB	11,439,394
NIB	3,431,818
Retail	8,007,576

About the company

Incorporated in 2010, Harsha Engineers International Limited is the largest manufacturer of precision bearing cages, in terms of revenue in organized sector in India. The company is a part of the Harsha Group. The company supplies its products to customers in over 25 countries covering five continents i.e., North America, Europe, Asia, South America and Africa. The business comprises of two segments: (i) Engineering business (ii) Solar EPC business. As of September 30, 2021, Harsha Engineers International has 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 and renewables sectors. In addition, over the past three years company's product development and innovation center has developed more than 1,200 products in different bearing types. The company has five manufacturing facilities for engineering business with two manufacturing facilities at Changodar and one at Moraiya, near Ahmedabad in Gujarat, India and one manufacturing unit each in Changshu, China and Ghimbav Brasov in Romania. Harsha Engineers International Limited has three wholly owned subsidiaries, one in China -Harsha Precision Bearing Components (China) Co. Ltd, one in the United States of America -HASPL Americas Corporation and one in the Netherlands-Harsha Engineers B.V., and a stepdown subsidiary in Romania-Harsha Engineers Europe SRL.

Strength

Comprehensive solution provider offering diversified suite of precision engineering products across geographies and end user industries: The company is a diversified product portfolio in terms of the materials used as well as the dimensions and end-use of the finished products. The company primarily manufactures bearing cages in the range of 20 mm to 2,000 mm in diameter. It has been successful in improving its current processes of manufacturing and new product development for different types of bearing cages mainly due to its designing and tooling development and technological capabilities. Within its diversified product portfolio, it manufactures bearing cages (including cylindrical roller cages, spherical roller cages, deep groove cages, angular contact cages, thrust roller cages and taper roller cages), complex and specialized precision stamped components, welded assemblies and brass castings and bushings. The company supplies products to customers in over 25 countries covering five continents i.e. North America, Europe, Asia, South America and Africa. Given its wide presence, its revenue stream is diversified both geographically as well as across customers.

The following table sets forth the revenue break-up from different jurisdiction for its engineering business:

Region	Fiscal 2022	Fiscal 2021	Fiscal 2020
Europe	37.88 %	39.21 %	38.51 %
India	30.41 %	26.90 %	29.18 %
China	13.06 %	15.09 %	12.96 %
America	6.23 %	7.12 %	7.24 %
Others	6.13 %	5.48 %	4.85 %
Total	93.72 %	93.80 %	92.74 %

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	99.70%	74.61%
QIB	0.00%	12.57%
NIB	0.30%	4.02%
Retail	0.00%	8.80%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company proposes to utilize the Net Proceeds from the Fresh Issue towards funding the following objects:

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

Book Running Lead Manager

- Axis Capital Limited
- Equirus Capital Private Limited
- JM Financial Consultants Private Limited

Name of the registrar

- Link Intime India Private Limited

Long standing relationships with leading clientele: The company has established strong relationship with their customers who are leading global bearing manufacturers in the automotive, railways, aviation & aerospace, construction, mining, agriculture, electrical and electronics, renewables sectors. As of March 31, 2022, the company supplies to each of the Top-6 global bearing manufacturers. Its top 10 customers contributed to 44.70%, 48.24%, and 47.79% of its total revenue from operations for Fiscal 2022, Fiscal 2021 and Fiscal 2020, respectively.

Strategically located domestic and international production facilities and warehouses: The company has four strategically located manufacturing facilities spread across three countries in India, China, and Romania. As on March 31, 2022, its 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. Its presence in these locations helps it to overcome significant entry barriers in comparison with its competitors, allowing it to penetrate these markets more efficiently and becoming a local supplier to leading key global bearing players. Its manufacturing units in India, China and Romania have been duly certified for conforming to and applying international standards of quality management systems and the company has comprehensive tooling, testing and measurement infrastructure at its Indian, China and Romanian manufacturing units.

Expertise in Tooling, design development and automation: HEIL has full-service capabilities across the product cycle including product design and development, material sourcing, designing and manufacture of complex tooling components, testing and measurement infrastructure, all under one roof for meeting the requirement of its global customers. The company employs machining as well as stamping processes in its manufacturing process. HEIL currently manufactures a wide range of precision automotive and industrial components with size upto 2,000 mm in diameter. It has comprehensive tooling, testing and measurement infrastructure and independent tool designing capabilities at both its units in India as well as its production unit in Romania that has allowed it to successfully diversify its products portfolio and improve its current processes in different type of bearing cages

Consistent track record of growth and financial performance: The company's focus on operational and functional excellence has contributed to its track record of healthy financial performance. Its strong financial performance reflects the efficacy of the manufacturing and supply-chain management protocols that it has implemented while its steady operating cash flows enable them to meet the present and future needs of its customers and develop new value-added products.

Strategy

Enhance market leadership in bearing cages and expanding the customer base: The company plans to continuously develop newer types of bearing cages with a special focus on larger diameter bearing cages (above 400 mm), to keep up with the evolving demands of the customers. The company is considered a versatile and consistent player in the bearing cages segment in China and it plans to further expand its base in China. Moreover, it intends to further expand into the Japanese bearing market by supplying directly to its Japanese customers at its locations in Japan. Additionally, it intends to leverage the European presence to grow its India business share in Europe by (i) procuring higher outsourcing orders from Europe-based Indian customers; and (ii) capitalizing on increasing opportunities for outsourced components in Europe, from new customers and by increasing the supplies to existing customers.

Retain and strengthen its technological leadership through continued focus on development and automation: The company plans to continue expanding its development, engineering, tool design and manufacturing, process improvements, lean manufacturing techniques, and automate them to optimize man-power to ensure zero defect products. With its expertise in design and manufacturing complex tooling components in house, it has engaged with its customers, developing and manufacturing over 7,500 types of products allowing it to meet changing customer requirements. To further strengthen its technological capabilities, it plans on acquiring and installing CNC lathes, high precision jig boring machine and automate its existing production lines. It plans to build a new

development centre having modern software for designs and simulations for new designs of tools. It also plans to expand its talent pool to support new research capacities to keep up with emerging market trends.

Growing its stamping and specialised component segment: The company plans on capitalizing on the existing niche and low-volume high-value products in the stamping and special component segment and gradually scaling up its business over 3-5 years. This growth is planned in two phases firstly manufacturing specialized parts/components and supplying to auto component assembly manufacturers and thereafter; and lastly change in supply process by manufacturing assemblies as composite components and supplying directly to OEMs. The company has set up a dedicated stamping unit at the production unit at Moraiya and has installed certain machinery with tools for complex stamping at the primary manufacturing units.

Focus on increasing operational efficiencies to improve returns: The company has adopted the Total Productive Maintenance (“TPM”) initiative across its plants in India to improve the operational efficiency and the reliability of its manufacturing processes by lowering breakdowns and rejections, and increasing focus on developing products suited to capture market opportunity in the growing electric vehicle segment. The company intends to use a variety of other manufacturing strategies, sourcing strategies and cost reduction strategies to continue to improve its operational efficiencies. The company has also recently introduced the 'One Harsha Project' to create a strategic business unit structure and thereby increasing the efficiency of its operations.

Focus on growth by opportunistic inorganic acquisitions and partnerships with customer: The company intends to pursue strategic alliances and inorganic growth opportunities with a particular focus on technologically-innovative acquisitions that may provide better access to technology with respect to its existing products and allow it to diversify its product and customer base opportunistically. Over the years, the company has focused on moving up this value chain of complexity and specialization by enhancing its manufacturing capabilities to produce complex precision components for several of its customers.

Risk factor

- The company depends on a limited number of customer groups for significant portion of its revenues from engineering business.
- The company is dependent on its network of agents for the fulfillment of the needs of its customers.
- Since company exports the products, there is foreign exchange rate fluctuation risk.
- Its operational flexibility may be limited in certain respects on account of its obligations under certain of its major customer agreements for its engineering business.
- Geographical concentration of its production units may restrict its operations and adversely affect its business and financial condition.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
SKF India	4027.10	444.95	90.00	54.38	12.83	381.43	10	4893.80	24193.95
Sundram Fasten.	5199.75	473.10	22.51	39.39	7.11	124.75	1	886.70	18632.08
Timken India	2434.50	388.40	51.64	65.08	15.26	220.28	10	3360.75	25279.14
Rolex Rings	1076.12	151.28	55.55	35.60	9.89	200.05	10	1977.65	5385.8
Harsha Engineers International Ltd	1321.48	91.94	10.10	32.67	3.08	107.30	10	330.00	3004.20

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.330, the stock is priced at pre issue P/E of 27.73x on FY22 EPS of Rs.11.90. Post issue, the stock is priced at a P/E of 32.67x on its EPS of Rs.10.10. Looking at the P/B ratio at Rs.330, pre issue, book value of Rs. 67.56 of P/Bvx 4.88x. Post issue, book value of Rs.107.30 of P/Bvx 3.08x.

Considering the P/E valuation, on the lower end of the price band of Rs.314, the stock is priced at pre issue P/E of 26.38x on FY22 EPS of Rs.11.90. Post issue, the stock is priced at a P/E of 31.09x on its EPS of Rs.10.10. Looking at the P/B ratio at Rs.314, pre issue, book value of Rs. 67.56 of P/Bvx 4.65x. Post issue, book value of Rs.107.30 of P/Bvx 2.93x.

Industry Outlook

The global bearings market was valued at USD 85.2 billion in 2015 and grew to USD 106.1 billion in the year 2019 at a CAGR of 5.6%. Owing to the global outbreak of Covid-19 since end of March 2020, the bearings market contracted in 2020 due to decline in demand and supply chain constraints on account of Covid-19 induced restrictions. However, a rebound was seen in 2021 and the market grew at an annual rate of 12% to USD 104.6 billion in 2021. Asia-Pacific region continued to grow rapidly during the year. The expected growth in usage of bearings in several applications such as mining, automotive, heavy machinery, infrastructure development, power generation and construction is forecasted to drive the demand for bearings market and it 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 171.7 billion in the year 2029. In terms of revenue, bearings market in India accounted for a share of about 5.2% in the global bearings market in 2021. Meanwhile, within Asia Pacific region, the revenues for bearings market in India accounted for a share of about 12.5% of the Asia Pacific region's revenues. The Indian bearings market grew at a CAGR of 7.2% from 2015 to 2019. The global outbreak of Covid-19 and subsequent imposition of restrictions led to fall in demand for bearings from end user industries and bottlenecks in supply chain networks of manufacturers. This in turn led to contraction of domestic bearings market in 2020. High and volatile commodity prices posed significant risks to the global economy and the effects were felt on both inflation and growth, and will fall unevenly across countries. There was a rebound seen in 2021 led by growth in the Asia-Pacific region, including India which showed expected growth in usage of bearings in several applications such as mining, automotive, infrastructure development and construction. Sharp growth in commodity prices also augured well for the overall growth in 2021. Threat of geopolitical conflict and supply chain issues (especially the semi-conductor shortage) will have an overhang in the near-term growth prospects. However, long term growth prospects remain intact, the market is expected to grow at a CAGR of 8.3% during 2021 to 2029 and is estimated to be valued at USD 10.3 billion in 2029.

Outlook

Harsha Engineers International Limited is the largest manufacturer of precision bearing cages in India in terms of revenue in the organized sector and amongst the largest manufacturer in the world. The Company generated good revenue growth in the last 4 years. Its margins are also improving year on year. With rising global outsourcing of bearing components from inhouse facilities of clients in Europe & US to India, relocation of global supply chains from China to India and strong domestic demand, the company is expected to see good growth going forward. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	14-September-22
BID/ISSUE CLOSSES ON	16-September-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	21-September-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	22-September-22
Credit of Equity Shares to demat accounts of Allottees	23-September-22
Commencement of trading of the Equity Shares on the Stock Exchanges	26-September-22

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Revenue from operations	1321.48	873.75	885.85
Total expenditure	1152.47	751.91	799.87
Operating Profit	169.02	121.84	85.98
OPM%	12.79	13.94	9.71
Other Income	17.52	2.98	13.65
PBDIT	186.53	124.82	99.63
Depreciation	35.36	34.11	35.24
PBIT	151.18	90.72	64.39
Interest	24.56	29.99	32.80
Restated Profit before tax	126.62	60.72	31.59
Tax	34.68	15.28	9.68
Profit & Loss before Share of Post-acquisition Profit of Associate	91.94	45.44	21.91

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-22	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	282.88	267.80	262.00
Capital Work in Progress	2.11	3.34	3.39
Goodwill on consolidation	71.06	73.14	70.10
Other Intangible assets	1.76	1.47	1.69
Financial Assets			
Non-current Investments	0.04	0.03	0.03
Loans & Advances	0.06	0.09	0.06
Other financial assets	0.64	0.40	0.39
Other tax asset (net)	11.05	9.93	10.62
Other non-current assets	8.65	7.79	7.26
Total non-current assets	378.22	364.00	355.53
Current assets			
Inventories	375.72	267.55	231.93
Financial Assets			
Current investments	6.43	9.25	6.58
Trade receivables	282.75	213.88	238.66
Cash and cash equivalents	21.42	33.05	24.28
Other bank balances	17.89	12.25	32.85
Other financial assets	10.75	6.95	5.55
Loans & Advances	12.34	4.83	6.97
Other current assets	52.73	69.32	70.89
Total current assets	780.03	617.07	617.71
Total Assets	1158.25	981.07	973.24
Non-current liabilities			
Financial liabilities			
Borrowings	137.85	101.52	127.64
Lease Liabilities	5.52	7.58	6.09
Provisions	11.06	9.52	6.89
Deferred tax liabilities (net)	3.95	2.00	-14.90
Other non-current liabilities	2.19	2.09	2.07
Total financial liabilities	160.56	122.70	127.79
Current liabilities			
Financial liabilities			
Borrowings	240.64	246.98	284.43
Lease liabilities	0.86	0.60	0.97
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	9.53	4.25	3.86
Total outstanding dues of creditors other than micro enterprises and small enterprises	173.26	112.43	107.60
Other Financial liabilities	23.50	26.25	18.39
Other current liabilities	23.83	39.81	55.19
Provisions	2.07	2.02	1.86
Current tax liabilities (net)	2.15	-1.14	1.17
Total current liabilities	475.84	431.19	473.47
Total	636.39	553.89	601.26
NET Worth	521.86	427.18	371.98
Net worth represented by:			
Share capital	77.25	50.00	50.00
Other Equity	444.61	377.18	321.98
Net Worth	521.86	427.18	371.98

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: smc.care@smcindiaonline.com



Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401 / 402, 4th Floor,
Graham Firth Steel Compound, Off Western
Express Highway, Jay Coach Signal, Goreagon
(East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s) in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance of this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions. All disputes shall be subject to the exclusive jurisdiction of Delhi High court.