

July 18, 2024

Happy Forgings Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund based	210.00	260.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed and assigned to the enhanced amount
Long-term/ Short-term - Unallocated Limits	0.00	225.00	[ICRA]AA(Stable)/ [ICRA] A1+; assigned
Total	210.00	485.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Happy Forgings Limited (HFL) continues to factor in the improvement in the financial risk profile of the company, following infusion of equity capital from the recently concluded initial public offering (IPO). The company raised ~Rs. 400 crore of funds via IPO, which aided the company in lowering debt levels and would help fund its growth capex over the near term. The ratings also factor in the sustained improvement in HFL's scale of operations and stability of its profitability indicators in the recent past along with commissioning of its 14,000-tonnes (T). HFL is expected to sustain its strong performance over the medium term, aided by healthy order inflows and efforts to gain business from new customers, and its established relationships with reputed tier-I, automotive ancillaries and original equipment manufacturers (OEMs), facilitating a strong share of business (SOB).

HFL's revenues grew by ~13% in FY2024 on a YoY basis, driven by a healthy demand for its key end-user segment (commercial vehicles [CVs]), and the company's foray in the passenger vehicle segment. Aided by an improving proportion of sales emanating from the relatively profitable machining segment and heavy forged components, the company's operating profitability continues to remain at a robust level (28.5% in FY2024). HFL remains well positioned to benefit from a healthy demand in the automotive segments, especially CVs, with its established relationships and strong SOB from various customers likely to help record a moderate-to-healthy revenue growth over the medium term. The company has recently gained business from multiple new customers (including some non-automotive ones). A ramp-up in supplies to these customers is expected to help diversify the company's business profile, augment its cash accruals and improve its credit profile.

The company continues to maintain a conservative capital structure (gearing of 0.1 times as on March 31, 2024), aided by healthy accretion to reserves and pre-payment of long-term debt, post equity infusion. HFL's operating profitability metrics and low debt levels have helped it maintain strong debt coverage indicators (total debt/OPBDITA of 0.4 times and NCA/total debt of ~212% in FY2024). Despite the ongoing capex programme, expectation of a healthy operating performance is likely to help limit HFL's dependence on external debt to fund its substantial capex plans, while helping it maintain strong return indicators and debt metrics.

The ratings remain constrained by the susceptibility of HFL's revenue generation to the cyclicity in the CV and agri-machinery segments, as they contribute ~73% to the company's revenues. While dependence on these segments is expected to remain high over the medium term, HFL's established relationships and strong SOB with various customers provides comfort. ICRA also notes that the new 14,000-T press line will help the company cater to relatively new product categories, leading to diversification of its revenue profile, however, HFL's ability to achieve healthy capacity utilisation levels for the enhanced capacity would be monitored.

The Stable outlook reflects ICRA's view that HFL is likely to maintain a comfortable credit profile over the medium term, with expectation of healthy cash accruals, which will help keep its dependence on external debt low, even as it continues with its

substantial capex plans towards expanding capacity, which is expected to be funded from internal cash reserves and funds received from IPO.

Key rating drivers and their description

Credit strengths

Established relationships with tier-I component manufacturers and OEMs – HFL is a Ludhiana-based manufacturer of forged and machined components, which are primarily supplied to the CV and tractor segments of the automotive industry. The promoters have over four decades of experience in the forging industry. The company enjoys established relationships and a strong SOB with reputed OEMs such as Ashok Leyland Limited, JCB India Limited, VE Commercial Vehicles Limited, and Escorts Limited as well as reputed tier-I automotive ancillaries, such as Graziano Transmission India Private Limited. The established relationships provide healthy revenue visibility for the company. In addition to its existing customers, the company has recently gained business from multiple new customers like Tata Motors Limited, Mahindra and Mahindra Limited, American Axle & Manufacturing (AAM India), Bonfiglioli etc., further strengthening its operational profile and revenue growth prospects.

Strong operating profitability and return indicators – HFL's operating margin continued to remain strong at ~28.6% in FY2024, aided by healthy realisations, cost efficiency measures and a timely ramp-up in capacity utilisation of the press lines and machining facilities. The profitability was also supported by supplies for heavier components post the commercialisation of 8,000 T and 14,000 T press lines. The average realisations for the company's sales in FY2024 increased because of combined factors including higher contribution from machining products and export sales (both commanding higher realisations) along with an increase in steel prices.

Healthy financial risk profile, aided by infusion of funds via IPO – The company concluded its IPO and got its shares listed on the stock exchanges on December 27, 2023. The primary issue size of the IPO was ~Rs. 400 crore (additionally there was an offer for sale (OFS) of ~Rs. 608.6 crore) and a part of the proceeds from that IPO was used to pay out the long term and short-term debt worth ~Rs. 153 crore, as stated in the objectives of the offer. The same will help improve the debt and coverage metrics of the company in the near future. Apart from that, the remaining funds (~Rs. 220 crore post issue expenses) are expected to be used for funding the capital expansion program, with the company having plans to enhance the forging capacity to widen its product and client portfolios. The company's strong operating profitability metrics, coupled with moderate debt levels (no term debt as of March 31, 2024) have helped it report robust debt coverage indicators, with Total Debt/OPBDITA of 0.4 times and NCA/Total Debt of 210% in FY2024. The debt coverage indicators are expected to continue to remain at healthy levels, going forward, aided by expectation of strong cash accruals and a consequent decline in debt levels.

Credit challenges

Key end-user segments of agri-machinery and CVs remain exposed to cyclical – HFL is primarily a supplier of forged and machined components to the CV and tractor segments of the automotive industry. Together, these two segments account for ~75% of its total revenues. Both these industries are inherently cyclical in nature. The demand for CVs is impacted by industrial, agricultural production and freight dynamics, while tractor demand remains closely linked to monsoon performance and agricultural income. Despite the management's focus on expanding its customer and product portfolios (across other segments), the company's dependence on these segments is expected to remain high over the medium term. HFL's established relationships and strong SOB with various customers, however, provide comfort.

Ongoing capacity expansion plans to remain under focus – HFL has recently concluded a phase of its capex program, wherein the company has increased its forging and machining capacities to ~1,20,000 MT per annum and 51,000 MT per annum levels, respectively, as of March 31, 2024. The company has commissioned a 14,000 T mechanical forge press line for heavy precision forging in FY2024 and has established its position as one of the key players in forging heavy components. As of now, it is only the second company in India to have a 14,000 T or higher forging press and is among the four companies in India that possesses an 8,000 T or higher presses. The new press line is expected to help the company cater to relatively new product categories, leading to diversification of its revenue profile. The company has plans to further enhance its manufacturing

capabilities/capacity, with the capex outlay of Rs. 200-250 crore/annum planned over the next 2-3 years. While a predominant share of its capex is likely to be funded through internal accruals and IPO proceeds, timely completion of the same and HFL's ability to achieve healthy utilisation for the enhanced capacity would remain key rating sensitivities.

Working capital intensive nature of operations – HFL's day-to-day operations are working capital intensive in nature, and its net working capital/ operating income stood at 39% as on March 31, 2024. The company is expected to reduce its dependence on short-term debt by incorporating efficient working capital management in the near-to-medium term.

Liquidity position: Strong

The liquidity position is expected to remain strong, supported by healthy cash and liquid investments (unencumbered ~Rs. 117.5 crore as of March 31, 2024), moderate utilisation of the working capital facilities (average buffer of Rs. 70-75 crore over the last 12 months) and expectation of strong cash accruals (Rs. 200-250 crore per annum). The entity has repaid all its long-term debt and the entity has no term loan outstanding as of March 31, 2024. HFL is expected to maintain more than sufficient liquidity to meet its ongoing capex programme (~Rs. 200-250 crore/annum) for enhancing its forging and machining capabilities. The company has around Rs. 160 crore of unutilised proceeds (as of March 31, 2024) that will be solely used for expansion plans.

Rating sensitivities

Positive factors – A material diversification of revenue with sustained scale-up in supplies to the export market, coupled with a substantial improvement in the scale of operations while maintaining healthy credit metrics, would be favourably considered for ratings upgrade.

Negative factors – ICRA could downgrade HFL's ratings if any weakness in demand in the segments catered and a consequent inability to achieve healthy capacity utilisation post the capacity expansion, materially impacts the company's return and debt coverage indicators. A specific credit metric that could trigger ratings downgrade include Total debt/OPBDITA of more than 1.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HFL. As of March 31, 2024, the company had one subsidiary, which was incorporated on March 16, 2024 (which is enlisted in Annexure-II).

About the company

Incorporated in 1979, Happy Forgings Limited (HFL) manufactures forged and machined transmission along with engine components that are supplied mainly to the automotive sector. Its product range includes automotive crankshafts, steering knuckles, transmission gears, pinions, shafts, and forged/machined components for the Indian Railways. It has a total forging capacity of 1,20,000 MT (hammer and press forging combined) and a machining capacity of 51,000 MT. The company supplies to leading OEMs in India directly and through tier-1 component suppliers as well.

HFL was incorporated in 1979 by Mr. Paritosh Kumar Garg as a private limited company, and was converted into a public limited company in 1988. The company has about four decades of experience of catering to the automotive, tractor, railway, earth moving and pipe fitting industries. Its day-to-day operations are overseen by Mr. Ashish Garg (Managing Director, son of Mr. Paritosh K. Garg), who has been instrumental in enhancing HFL's share of business with various OEMs. MOPE Investment

Advisors Private Limited, a private equity player, invested Rs. 200.0 crore as equity in HFL in FY2019 (shares held under Vistra ITCL (India) Limited), acquiring a stake of 11.76% in the process. The company subsequently came out with an IPO in December 2023.

Key financial indicators (audited)

HFL Standalone	FY2023	FY2024
Operating income	1,196.8	1,358.2
PAT	208.7	243.0
OPBDIT/OI	28.9%	28.6%
PAT/OI	17.4%	17.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.6	0.4
Interest coverage (times)	27.7	32.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
			July 18, 2024	Feb 15, 2024	Dec 21, 2022	May 20, 2022	-
1 Term loans	Long term	0.00	-	-	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	-
2 Long-term/ Short-term – Fund based	Long term and short term	260.00	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-
3 Fund Based Limits	Long-term	0.00	-	-	-	[ICRA]A+(Positive)	-
4 Unallocated Limits	Long-term and short-term	225.00	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	[ICRA]A+(Positive)/ [ICRA] A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund-based	Simple
Long-term/ Short -term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	260.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	225.00	[ICRA]AA (Stable)/[ICRA]A1+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Happy Forgings Limited	100.00% (rated entity)	Full Consolidation
HFL Technologies Private Limited	100.00%	Full Consolidation

Source: HFL annual report FY2024; Note: During FY2024, the Company incorporated a wholly owned subsidiary, namely HFL Technologies Private Limited and invested an amount of Rs 10 lacs in its paid up share capital

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