

July 21, 2025

Happy Forgings Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous rated amount (Rs. crore) | Current rated amount (Rs. crore) | Rating action |
|--|--------------------------------------|-------------------------------------|---|
| Long-term/ Short-term – Fund based | 260.00 | 260.00 | [ICRA]AA(Stable)/ [ICRA] A1+; Rating reaffirmed |
| Long-term/ Short-term – Unallocated Limits | 225.00 | 225.00 | [ICRA]AA(Stable)/ [ICRA] A1+; Rating reaffirmed |
| Total | 485.00 | 485.00 | |

*Instrument details are provided in Annexure I

Rationale

The reaffirmed ratings of Happy Forgings Limited (HFL) continue to factor in the expectation of steady operational performance by the entity, which is expected to help it generate healthy cash accruals and maintain strong credit metrics. The ratings continue to favourably consider the sustained improvement in HFL's scale of operations over the past few years and stability of its profitability indicators. This is despite periods of downturn in the commercial vehicle and tractor industries in India and abroad, which constitute the primary share of HFL's revenue (at about 69% of revenue in FY2025). The company is expected to sustain its healthy performance over the medium term, aided by significant order inflows and efforts to gain business from new customers. Moreover, its established relationships with reputed tier-I automotive ancillaries and original equipment manufacturers (OEMs), facilitating a strong share of business (SOB), provide further comfort.

HFL's revenues grew by a moderate 4% in FY2025 on a YoY basis, despite a subdued demand for its key end-user segment (commercial vehicles [CVs] and Tractors), while the company's foray continued in the passenger vehicle and industrial segments (power generation applications). The company's operating profitability remains at a robust level (28.9% in FY2025), aided by an improving proportion of sales stemming from the relatively profitable machining segment and heavy forged components. HFL remains well-positioned to benefit from the expectation of healthy demand in the automotive segments over the medium term, 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). The 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, 2025), aided by healthy accretion to reserves and pre-payment of long-term debt, following the equity infusion. HFL's operating profitability metrics and low debt levels have helped it maintain strong debt coverage indicators (Total debt/OPBDITA of 0.6 times and NCA/total debt of ~137% in FY2025). Even as capex outlay towards enhancement of capacity/manufacturing capabilities is expected to be substantial (Rs. 850-1,000 crore over FY2026-FY2028), an 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 leverage metrics (Total Debt/OPDBITA expected to remain range-bound at 0.7-0.9 times over the medium term).

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 ~69% to the company's revenues in FY2025. 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 company's 14,000 tonnes (T) press line is expected to 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 continues to be monitorable.

The Stable outlook reflects ICRA's view that HFL is likely to maintain a comfortable credit profile over the medium term. This is supported by the expectation of healthy cash accruals, which will help keep its dependence on external debt low, even as it proceeds with its substantial capex plans towards expanding capacity.

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 over the past few years, including Tata Motors Limited, Mahindra and Mahindra Limited, American Axle & Manufacturing (AAM India) and Bonfiglioli. This has further strengthened its operational profile and revenue growth prospects.

Strong operating profitability and return indicators – HFL's operating margin remained strong at ~28.9% in FY2025, 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 following the commercialisation of 8,000 T and 14,000-T press lines. The average realisation for the company's sales in FY2025 increased, aided by factors such as higher contribution from machining products and export sales (both commanding higher realisations).

Healthy financial risk profile – 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 the IPO was utilised to repay the long-term and short-term debt of ~Rs. 153 crore, as stated in the objectives of the offer. This improved the company's debt and coverage metrics. Besides, ~Rs. 220 crore were raised to fund the capital expansion program, of which about Rs. 129 crore are pending as part of encumbered cash as on March 31, 2025. The company's strong operating profitability metrics, coupled with moderate debt levels (no term debt as on March 31, 2025) helped it to report robust debt coverage indicators, with Total Debt/OPBDITA of 0.6 times and NCA/Total Debt of 137% in FY2025. The debt coverage indicators are expected to remain at healthy levels, going forward, aided by the 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 nature – 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 ~70% of its total revenues in FY2025. 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.

Substantial capacity expansion plans – HFL has recently concluded a phase of its capex program, wherein the company has increased its forging and machining capacities to ~1,27,000 MT per annum and 57,000 MT per annum levels, respectively, as of March 31, 2025. The company 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. 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. 850-1,000 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 43% as on March 31, 2025. 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: Adequate

The liquidity position is expected to remain adequate, supported by healthy cash and liquid investments (unencumbered ~Rs. 138.8 crore as on March 31, 2025, after liquidity haircut as per ICRA's liquidity assessment policy), moderate utilisation of the working capital facilities (average buffer of ~Rs. 160 crore over the last 12 months) and expectation of strong cash flows. The entity repaid all its long-term debt and had no outstanding term loan as on March 31, 2025. HFL is expected to raise Rs. 200-250 crore in term debt to partially fund its ongoing capex programme (~Rs. 850-1,000 crore over 2-3 years), aimed at enhancing its forging and machining capabilities. The company also has around Rs. 129 crore of unutilised proceeds (as on March 31, 2025) that will be solely used for expansion plans.

Rating sensitivities

Positive factors – A material diversification of revenue, supported by a 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 across its catered segments and a consequent inability to achieve healthy capacity utilisation after the capacity expansion, materially impacts the company's return and debt coverage indicators. A specific credit metric that could trigger ratings downgrade includes 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 on March 31, 2025, the company had one subsidiary, which was incorporated on March 16, 2024 (which is enlisted in Annexure-II). |

About the company

Incorporated in 1979, 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 also through tier-1 component suppliers.

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 in 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 | FY2024 | FY2025 |
|--|---------|---------|
| Operating income | 1,358.2 | 1,408.9 |
| PAT | 243.0 | 267.6 |
| OPBDIT/OI | 28.6% | 28.9% |
| PAT/OI | 17.9% | 19.0% |
| Total outside liabilities/Tangible net worth (times) | 0.2 | 0.2 |
| Total debt/OPBDIT (times) | 0.4 | 0.6 |
| Interest coverage (times) | 32.9 | 54.0 |

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 (FY2026) | | Chronology of rating history for the past 3 years | | | |
|---|------------------------------------|--------------------------|--------------------------|------------------------------|---|------------------------------|------------------------------|-------------------------------|
| | | | Amount rated (Rs. crore) | Date & rating in FY2026 | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | |
| | | | | July 21, 2025 | July 18, 2024 | Feb 15, 2024 | Dec 21, 2022 | May 20, 2022 |
| 1 | Term loans | Long term | - | - | - | - | [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+ | [ICRA]AA-(Stable)/ [ICRA]A1+ | - |
| 3 | Fund Based Limits | Long-term | - | - | - | - | - | [ICRA]A+(Positive) |
| 4 | Unallocated Limits | Long-term and short-term | 225.00 | [ICRA]AA (Stable)/ [ICRA]A1+ | [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

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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 FY2025

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