

Happy Forgings

Estimate changes	↔↔
TP change	↔↔
Rating change	↔↔

Bloomberg	HAPPYFOR IN
Equity Shares (m)	94
M.Cap.(INRb)/(USDb)	91.4 / 1
52-Week Range (INR)	1269 / 716
1, 6, 12 Rel. Per (%)	6/-/22
12M Avg Val (INR M)	50

Consol. Financials & Valuations (INR b)			
Y/E March	FY25	FY26E	FY27E
Sales	14.1	15.2	18.0
EBITDA	4.1	4.4	5.4
Adj. PAT	2.7	2.8	3.6
EPS (INR)	28.4	30.2	38.3
EPS growth %	10.1	6.3	26.8
BV/Sh. (INR)	196	222	256
Ratios			
RoE (%)	15.5	14.4	16.0
RoCE (%)	14.3	13.3	14.7
Payout (%)	10.6	13.3	13.1
Valuations			
P/E (x)	34.2	32.2	25.4
P/BV (x)	5.0	4.4	3.8
EV/EBITDA (x)	22.2	20.6	16.8
Div. Yield (%)	0.3	0.4	0.5

Shareholding Pattern (%)			
As On	Jun-25	Mar-25	Jun-24
Promoter	78.5	78.6	78.6
DII	17.0	17.1	16.7
FII	2.2	2.2	2.2
Others	2.3	2.2	2.5

CMP: INR970 **TP: INR1118 (+15%)** **Buy**

Margin maintained despite weak demand

Healthy order backlog to drive outperformance going forward

- Happy Forgings' (HFL) 1QFY26 PAT at INR657m was in line with our estimate. Sluggish demand in CV, farm and off-highway segments led to a dip in exports, while domestic revenue grew YoY due to healthy demand in key segments.
- We have marginally tweaked our estimates. We expect HFL to post a CAGR of 13%/15%/16% in standalone revenue/EBITDA/PAT during FY25-27E. HFL's superior financial track record compared to its peers serves as a testament to its inherent operational efficiencies and is likely to be a key competitive advantage going forward. **We reiterate our BUY rating on the stock with a TP of INR1,118 (based on 27x Jun'27E EPS).**

Margins stable despite multiple headwinds

- Standalone revenue grew 3.6% YoY (flat QoQ) to INR3.54b (in line with estimates), entirely driven by 3.8% YoY growth in volumes to 14,457 metric tons. ASP remained flat YoY. ASP remained flat YoY despite the 3-3.5% raw material contraction (impact of INR 4-5 per kg)
- Domestic revenue was up 7% YoY, led by healthy demand across its key segments. In contrast, exports were impacted by sluggish demand in CV, farm and off-Highway segments, as well as uncertainty around tariffs in certain geographies.
- Gross margins expanded 230bp YoY (10bp QoQ) to 58.8%, aided by reduced input costs.
- EBITDA margins remained flat YoY at 28.6% (in line with estimates). EBITDA rose 3.6% YoY to ~INR1b, which was in line with our estimate.
- Sectoral mix for this quarter stood at 39%/6%/32%/10%/13% for CV/PV/Farm/Off-highway/Industrial segments. CV share of the mix decreased YoY, whereas PV segment grew 300bp.
- This quarter saw 59% capacity utilization in forgings vs. last year's 57%. While the machining capacity grew YoY by ~2% to 58,200 units, capacity utilization dipped to 77% from 83% YoY.
- HFL has announced investment of INR6.5b for setting up advanced forging capabilities in the heavyweight components segment (weighing 250-3000kg). This facility will be the largest of its kind in Asia and the second largest globally. The plant is expected to be commissioned by FY27.

Highlights from the management interaction

- Management expects to outperform the domestic CV industry in 2H on the back of its new order wins. Revenue growth guidance for domestic CVs stands at high single digits.

- However, CV outlook in Europe remains weak, with expectation of 10% decline in CV production for CY25.
- On the back of positive rural sentiment, HFL expects the momentum in the domestic tractor industry to sustain at least till Diwali. Overall, HFL expects the industry to post 4-7% growth in FY26.
- However, the US and Europe tractor market declined in high single digits in Q1. Large OEMs expect a 5-15% volume drop in tractor for CY25.
- In 1Q, HFL has won new orders from two large European OEMs. This includes an order worth INR2.5b (INR500-600m p.a.) from the largest tractor OEM in Europe.
- PV segment remains its key growth driver and is on track to reach 8-10% of revenue in two years, with a planned scale-up and capacity expansion (INR800m planned in FY26).
- A key order win in Industrials was an INR6b deal to supply components for wind energy installation. There is another large order in the pipeline worth INR1.8b for fully machined products for data centers, for which capex is ongoing. In defense, HFL has started participating in tenders and quoted for certain projects.
- The planned capex for FY26 stands at INR3b, excluding the solar plant investment (INR600-700m for solar CPP with four acres of land already bought).

Valuation and view

- HFL is expected to outperform the industry, driven by new client additions, product expansion, and capacity growth. A recovery in domestic CV demand, healthy tractor outlook and strong order wins in Industrials and PVs should help to offset the weakness in export markets in the near term.
- We have marginally tweaked our estimates. We expect HFL to post a CAGR of 13%/15%/16% in standalone revenue/EBITDA/PAT during FY25-27E. HFL's superior financial track record compared to its peers serves as a testament to its inherent operational efficiencies and is likely to be a key competitive advantage going forward. **We reiterate our BUY rating on the stock with a TP of INR1,118 (based on 27x Jun'27E EPS).**

Quarterly (Standalone)

									(INR Million)			
	FY25				FY26E				FY25	FY26	1QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net operating income	3,415	3,611	3,543	3,520	3,538	3,720	3,827	4,071	14,089	15,155	3,585	-1.3
Change (%)	3.5	5.3	3.6	2.5	3.6	3.0	8.0	15.7	3.7	0.0	5.0	
RM/Sales (%)	43.5	41.2	42.0	41.3	41.2	41.6	41.6	41.2	42.0	41.6	41.8	
Staff Cost (%)	8.5	8.5	9.3	9.2	9.1	9.0	8.8	9.0	8.9	0.0	9.2	
Other Exp. (%)	19.4	21.2	20.1	20.4	20.3	20.4	20.4	20.9	20.3	0.0	20.2	
EBITDA	976	1,054	1,015	1,023	1,012	1,079	1,117	1,176	4,067	4,383	1,033	-2.0
EBITDA Margins (%)	28.6	29.2	28.6	29.1	28.6	29.0	29.2	28.9	28.9	0.0	28.8	
Non-Operating Income	77	83	66	101	104	108	107	109	376	428	90	
Interest	14	16	21	24	23	22	23	21	75	89	20	
Depreciation	180	197	191	203	206	220	235	239	771	899	205	
EO Exp	-48				0	0	0	0		0	0	
PBT after EO items	859	973	868	897	886	945	966	1,025	3,597	3,822	898	
Tax	220	259	223	219	230	236	248	264	921	979	230	
Eff. Tax Rate (%)	25.6	26.6	25.7	24.4	25.9	25.0	25.7	25.8	25.6	0.0	25.6	
Rep. PAT	639	714	645	678	657	709	718	760	2,676	2,844	668	
Change (%)	-0.3	29.3	11.4	3.0	2.9	-0.8	11.3	12.2	-68.1	0.0	4.6	
Adj. PAT	639	666	645	678	657	709	718	760	2,676	2,844	668	-1.6
Change (%)	-0.3	20.6	11.4	3.0	2.9	6.3	11.3	12.2	10.1	6.3	4.6	

E: MOFSL Estimates



Highlights from the management interaction

CV business update

- CV revenue now accounts for 39% of HFL's total revenue vs. 42% earlier. CV revenue declined in mid-single digits YoY in 1QFY26, impacted by demand weakness in Europe. CV OEMs in Europe reported ~8-10% YoY volume drop this quarter, falling for eight consecutive quarters. Further, India MHCV segment production was flat, while sales declined by 4% YoY in 1Q.
- Despite new order wins, HFL was able to only marginally outperform CV industry growth in 1Q due to the loss of market share for one of its key OEMs in the segment.
- It has a healthy pipeline of orders for future quarters, which includes one large order for CV crankshafts. Additionally, HFL has negotiated a deal with a CV client who is setting up a complete transmission plant in India. This deal is expected to boost volumes in the future.
- Management expects to outperform the domestic CV industry in 2H on the back of its new order wins. Revenue growth guidance for domestic CVs stands at high single digits.
- CV exports currently make up close to 50% of HFL's total exports (~9-10% of total revenue). CV outlook in Europe remains weak, with expectation of 10% decline in CV production in CY25.

Tractor business update

- Farm equipment accounted for ~32% of total 1Q revenue (flat YoY). Domestic tractor sales grew 9% YoY (production up 13%), supported by a good monsoon outlook and improving rural sentiment. However, HFL has slightly underperformed the industry growth in 1Q. Management indicated that it is likely to be due to OEM-specific issues.
- Considering positive rural sentiment, HFL expects the momentum in the domestic tractor industry to sustain at least till Diwali. Overall, it expects the industry to post 4-7% growth in FY26.
- However, the US and Europe markets declined in high single digits. Large OEMs expect a 5-15% volume drop in CY25.
- The direct export segment makes up only 1% of total revenue. However, total tractor exports (indirect/deemed) contributed to close to 10% of revenue. Despite the decline in end markets, HFL's CV export revenue remained flat YoY.
- In 1Q, HFL won new orders from two large European OEMs, including an order worth INR2.5b (INR500-600m p.a.) from the largest tractor OEM in Europe. HFL is in an advanced stage of getting another order from another large European OEM. Given the ongoing tariff issues, these are expected to be direct export orders for HFL.

OHV business update

- OHV contributed ~10% of total 1Q revenues. This segment saw mid-single-digit YoY decline due to soft demand in India and globally. Domestic construction equipment industry fell in mid-single digits on delays in road, mining, and infrastructure projects; Europe/US markets dropped 10-12%.

- Demand in this segment is likely to remain weak in 2025 and a revival is expected in 2026 once infrastructure spends pick up in India and key export regions.

PVs business update

- PV contribution rose to 6% of total 1Q revenue (vs. 3% in 1QFY25), driven by the ramp-up of dedicated lines for key SUV platforms. This remains its key growth driver and is on track to reach 8-10% of revenue in two years, with a planned scale-up and capacity expansion (INR800m planned in FY26).
- Direct exports to the US contribute to about 3-4% of revenue. However, current orders are such that the tariff impact will be borne by OEMs, as per management. Thus, while HFL does not see any tariff-related impact on PV segment, the resultant slowdown due to this measure is a real risk that needs to be monitored going forward.
- HFL is also working on a few new products for its North American customers on the suspensions side.

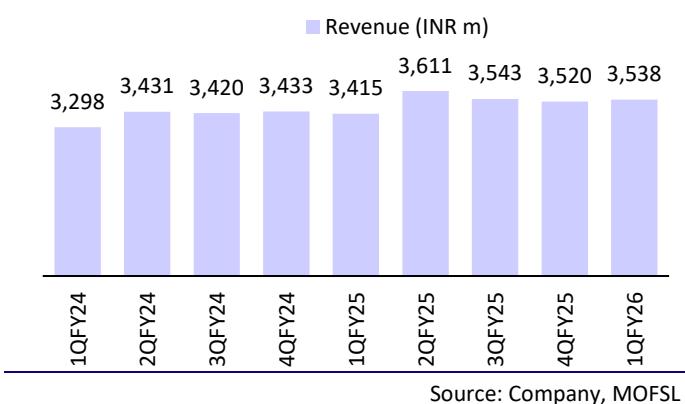
Industrial business update

- The Industrial segment's contribution stood at 13% of total 1Q revenue, with strong growth led by domestic demand in wind energy, power generation and oil and gas sectors.
- Industrial exports contributed to about 5-6% of revenue.
- Growth is expected to accelerate after the commissioning of the INR6.5b heavy-press capacity in FY27, which will cater to high-value, large-sized components for oil & gas, defense, marine, mining, wind, and power generation, with ASPs expected to rise and margins above current levels. While HFL is getting a lot of enquiries, global OEMs are waiting for this plant to be commissioned before awarding HFL new orders.
- A key order win was an INR6b deal for wind energy installation. The SOP for this would be Jan'26. The wind shafts used for this order range around 150-300kg. Another large order of INR1.8b for fully machined products for data centers is in the pipeline as well, for which capex is ongoing. In defense, HFL has started participating in tenders and quoted for certain projects.

Update on capex

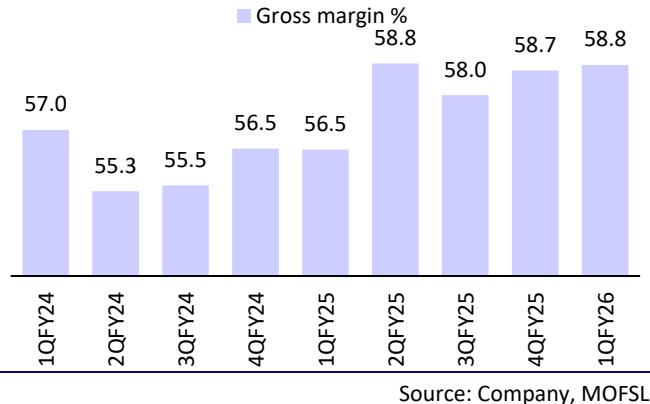
- A 6,300-ton press commissioned in FY25; a 4,000-ton press under installation for PV orders. Another 10k-ton press would be installed in FY26. After this, capacity would increase to ~150k MT p.a.
- Forgings utilization stands at 59% in tonnage terms and it has another 18-20% capacity available for growth. The utilization of the 14k T press stands at 46-48%.
- The planned capex for FY26 stands at INR3b, excluding the solar plant investment (INR600-700m for solar CPP with four acres of land already bought). INR1.2b has already been invested in capex in 1Q.

Exhibit 1: SA revenue trend



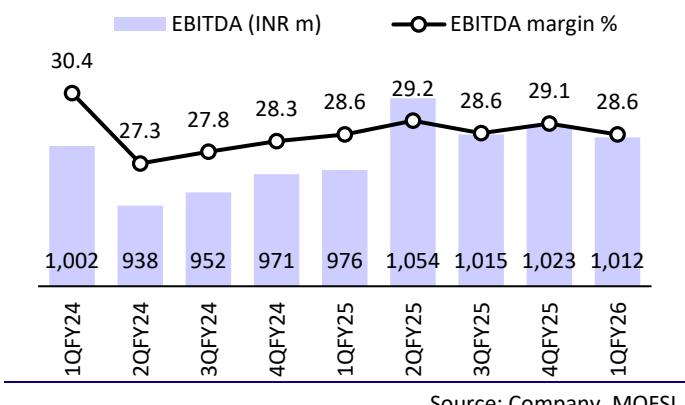
Source: Company, MOFSL

Exhibit 2: SA gross margin trend



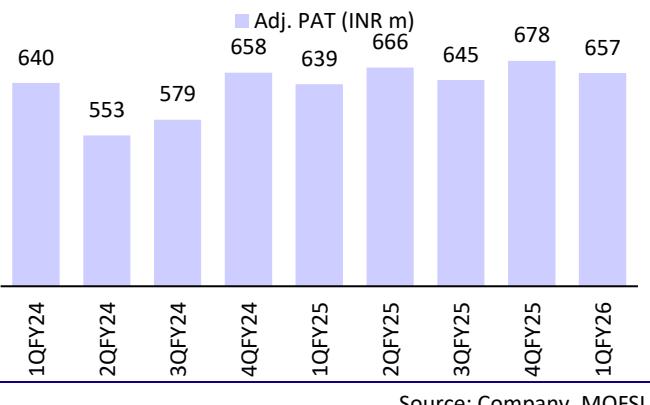
Source: Company, MOFSL

Exhibit 3: EBITDA and margin trends



Source: Company, MOFSL

Exhibit 4: Adj. PAT trend over the quarters



Source: Company, MOFSL

Valuation and view

- **Ability to deliver safety-critical, complex forged and machined products:** HFL embarked on its journey by manufacturing basic forged components, and evolved to manufacture complex and safety-critical products with tight tolerances. This transformation involved expanding capabilities in both light and heavy forgings as well as machining processes. It is the second company in India to have a 14k-ton forging press and one of the four companies to have an 8k-ton or higher press. It is a supplier to each of the top five Indian OEMs in the M&HCV industry. It has now announced a capex of INR6.5b to expand in the heavyweight forgings, which further indicates its commitment to grow in the high-margin industrials category. Transitioning from solely a forgings player, HFL has now evolved into a fully machined player, with its machining mix increasing to 87% in FY25 from 53% in FY14.
- **Well-diversified mix to help offset cyclical uncertainty:** Over the years, HFL has successfully diversified its user industry across segments and customers. Its exports surged to 18% in FY25 from just 13% in FY23. Additionally, the contribution from its Industrials segment increased to 14% in FY25 from just 4% in FY23. Further, PV segment contributed to 4% of revenue in FY25 from nil in FY23. This diversified customer base has helped HFL reduce cyclical uncertainty in its core segments, such as CVs and tractors. It is noteworthy that despite weak demand in CVs and exports for both CVs and tractors, HFL has been able to deliver revenue growth of ~4% YoY in FY25 due to a strong performance in the Industrials (non-tractor) and PV segments.

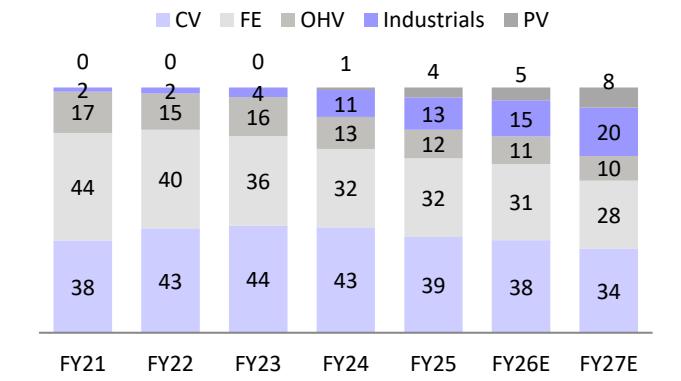
- **Revival in core segments and healthy new orders to offset export weakness:** HFL's major revenue share is attributed to CV and Farm Equipment, constituting 38% and 32%, respectively, in FY25. After witnessing weak demand over the last couple of years, the CV segment is likely to post mid-single digit growth in FY26E. Even tractor demand is expected to post high-single-digit growth in FY26E. Further, HFL has already secured orders from both domestic and global PV OEMs in the Industrial segments. These two segments together have a strong order backlog of INR16b to be executed over the next 5-8 years, by when these two segments together would contribute to 25% of revenue. We expect these factors to help to offset the weakness in CV and tractor export markets in the near term. Overall, we expect HFL to post 13% revenue CAGR over FY25-27E.
- **Valuation and view:** We have marginally tweaked our estimates. We expect HFL to post a CAGR of 13%/15%/16% in standalone revenue/EBITDA/PAT during FY25-27E. HFL's superior financial track record compared to its peers serves as a testament to its inherent operational efficiencies and is likely to be a key competitive advantage going forward. **We reiterate our BUY rating on the stock with a TP of INR1,118 (based on 27x Jun'27E EPS).**

Exhibit 5: Our revised forecasts

(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	15.2	15.5	-2.3	18.0	18.3	-1.6
EBITDA Margin (%)	28.9	29.0	0bp	30.0	29.7	40bp
PAT	2.8	2.9	-1.6	3.6	3.6	1.0
EPS (INR)	30.2	30.7	-1.6	38.3	37.9	1.0

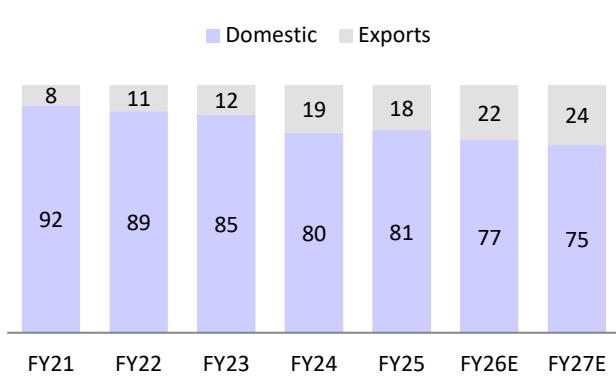
Key operating indicators

Exhibit 6: Revenue mix % – Share of industrials and PVs to rise



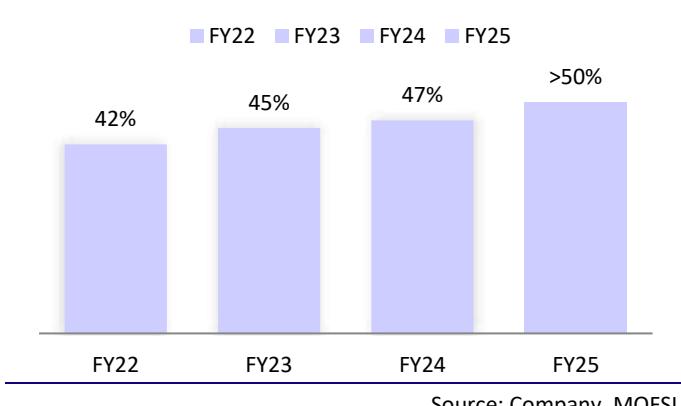
Source: Company, MOFSL

Exhibit 7: Revenue share % of exports to keep rising



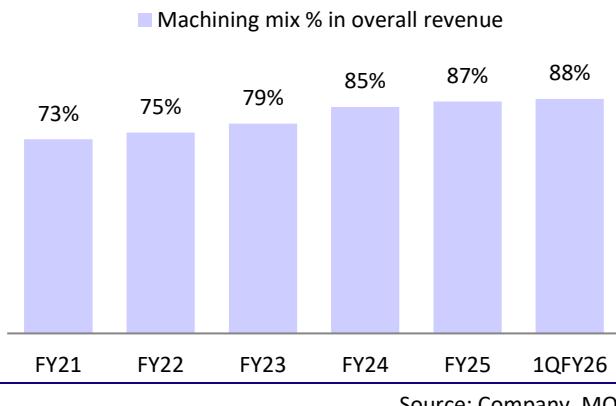
Source: Company, MOFSL

Exhibit 8: Crankshaft contribution at >50% of revenue



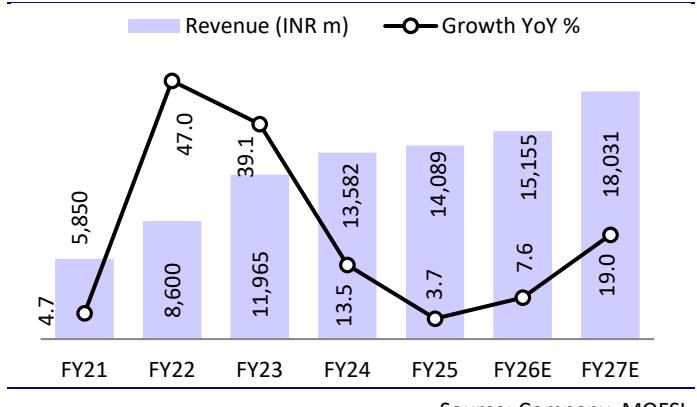
Source: Company, MOFSL

Exhibit 9: Focusing on increasing the machining mix



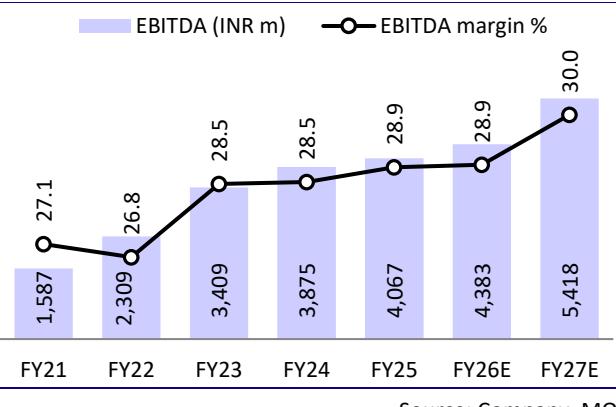
Source: Company, MOFSL

Exhibit 10: Revenue to register ~13% CAGR over FY25-27



Source: Company, MOFSL

Exhibit 11: EBITDA margin to expand ~110bp over FY25-27



Source: Company, MOFSL

Exhibit 12: PAT to register ~16% CAGR over FY25-27

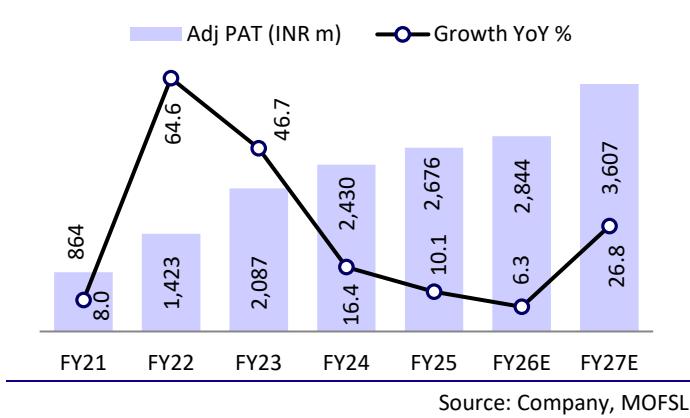


Exhibit 13: Bulk of the capex to be met from internal accruals

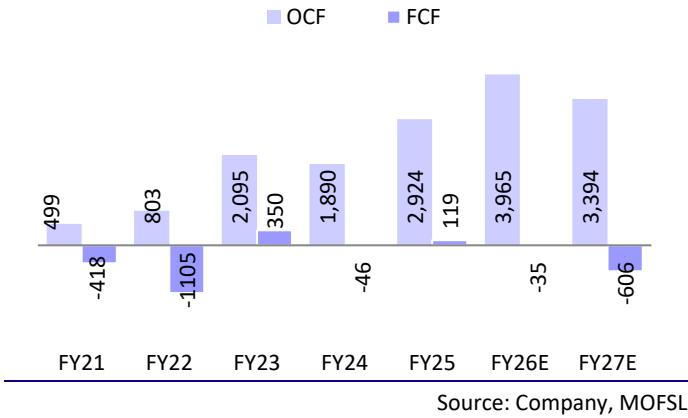


Exhibit 14: Returns to remain steady in the coming years

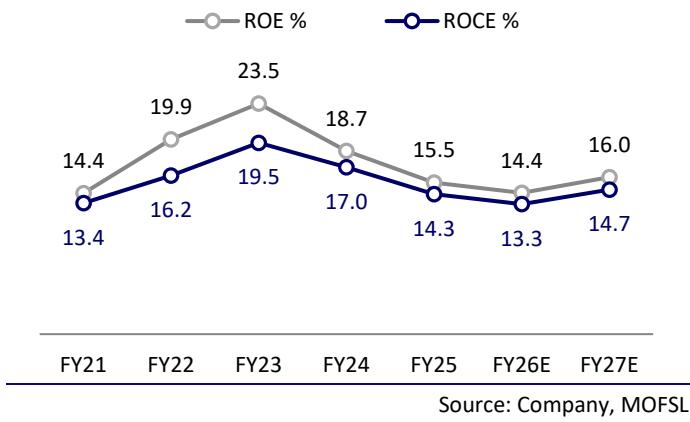
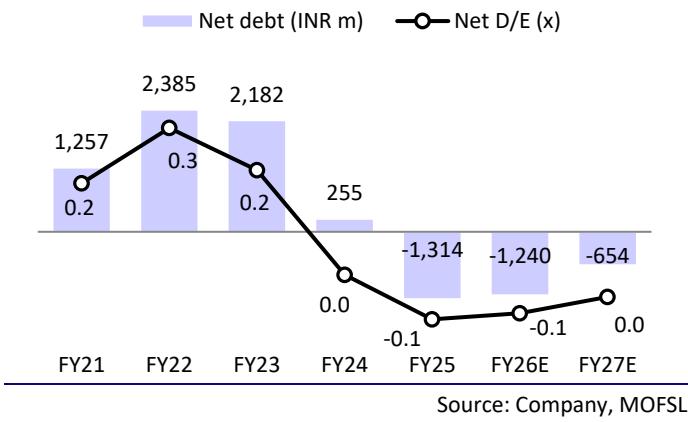


Exhibit 15: Overall debt continues to decline



Financials and valuations

Income Statement							(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Sales	5,850	8,600	11,965	13,582	14,089	15,155	18,031
Change (%)	4.7	47.0	39.1	13.5	3.7	7.6	19.0
EBITDA	1,587	2,309	3,409	3,875	4,067	4,383	5,418
Margin (%)	27.1	26.8	28.5	28.5	28.9	28.9	30.0
Depreciation	358	377	542	647	771	899	1,060
EBIT	1,230	1,931	2,868	3,228	3,296	3,484	4,358
Int. and Finance Charges	118	72	125	118	75	89	70
Other Income	59	61	58	134	376	428	560
PBT after EO Exp.	1,171	1,920	2,800	3,244	3,597	3,822	4,848
Current Tax	316	471	685	748	848	979	1,241
Deferred Tax	-10	27	29	65.67	72.81	-	-
Tax Rate (%)	26.2	25.9	25.5	25.1	25.6	25.6	25.6
Reported PAT	864	1,423	2,087	2,430	2,676	2,844	3,607
Adj PAT	864	1,423	2,087	2,430	2,676	2,844	3,607
Change (%)	8	65	47	16	10	6	27

Balance Sheet							(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	90	179	179	188	188	188	188
Total Reserves	6,362	7,697	9,704	15,937	18,308	20,775	23,911
Net Worth	6,452	7,876	9,883	16,125	18,497	20,964	24,100
Deferred Liabilities	202	229	230	316	393	393	393
Total Loans	1,535	2,404	2,185	1,430	2,273	2,173	2,473
Capital Employed	8,188	10,509	12,299	17,871	21,163	23,530	26,966
Gross Block	5,066	5,858	8,591	9,880	12,277	16,277	20,277
Less: Accum. Deprn.	919	1,296	1,807	2,444	3,205	4,105	5,165
Net Fixed Assets	4,147	4,562	6,784	7,437	9,072	12,173	15,112
Capital WIP	404	2,123	748	1,267	1,227	1,227	1,227
Total Investments	0	4	3	1,169	3,457	2,957	2,957
Curr. Assets, Loans&Adv.	4,214	4,610	5,726	8,987	8,390	8,235	8,925
Inventory	1,216	1,840	1,696	2,242	2,324	2,456	2,922
Account Receivables	1,658	2,220	3,081	3,569	4,265	3,975	4,446
Cash and Bank Balance	278	15	0	5	129	456	169
Loans and Advances	1,062	535	950	3,170	1,671	1,347	1,388
Curr. Liability & Prov.	576	790	963	988	983	1,061	1,256
Creditors	379	442	477	555	454	543	646
Other Current Liabilities	178	321	448	388	481	468	556
Provisions	19	27	38	45	49	51	54
Net Current Assets	3,638	3,821	4,763	7,998	7,407	7,173	7,669
Appl. of Funds	8,188	10,509	12,299	17,871	21,163	23,530	26,966

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)							
EPS	19.3	15.9	23.3	25.8	28.4	30.2	38.3
Cash EPS	27.3	20.1	29.4	32.7	36.6	39.7	49.5
BV/Share	144.2	88.0	110.4	171.2	196.3	222.4	255.7
DPS	-	-	-	4.0	3.0	4.0	5.0
Payout (%)	-	-	-	15.5	10.6	13.3	13.1
Dividend Yield (%)	-	-	-	0.4	0.3	0.4	0.5
FCF per share	-9.3	-12.4	3.9	-0.5	1.3	-0.4	-6.4
Valuation (x)							
P/E	50.3	61.1	41.7	37.7	34.2	32.2	25.4
Cash P/E	35.6	48.3	33.1	29.8	26.6	24.5	19.6
P/BV	6.7	11.0	8.8	5.7	5.0	4.4	3.8
EV/Sales	7.7	10.4	7.5	6.8	6.4	6.0	5.0
EV/EBITDA	28.2	38.7	26.2	23.7	22.2	20.6	16.8
Return Ratios (%)							
RoE	14.4	19.9	23.5	18.7	15.5	14.4	16.0
RoCE (Post-tax)	13.4	16.2	19.5	17.0	14.3	13.3	14.7
RoIC	14.4	18.0	21.5	17.9	15.4	14.7	15.6
Working Capital Ratios							
Fixed Asset Turnover (x)	1.2	1.5	1.4	1.4	1.1	0.9	0.9
Inventory (Days)	62	65	54	53	59	58	54
Debtor (Days)	95	82	81	89	101	99	85
Creditor (Days)	37	17	14	14	13	12	12
Working Capital (Days)	169	152	131	171	198	169	144
Leverage Ratio (x)							
Net Debt/Equity	0.2	0.3	0.2	0.0	-0.1	-0.1	0.0

Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Operating PBT	1,171	1,921	2,800	3,244	3,597	3,822	4,848
Depreciation	358	377	542	647	771	899	1,060
Interest/Div paid	-118	-72	-125	118	75	89	70
Direct Taxes Paid	-399	-431	-638	-839	-832	-979	-1,241
(Inc)/Dec in WC	-825	-1,088	-779	-1,230	486	560	-783
Other items	312	96	295	-50	-1,172	-428	-560
CF from Operations	499	803	2,095	1,890	2,924	3,965	3,394
(inc)/dec in FA	-917	-1,908	-1,745	-1,936	-2,804	-4,000	-4,000
Free Cash Flow	-418	-1,105	350	-46	119	-35	-606
(Pur)/Sale of Investments	288	230	15	-2,770	-587	500	-
Others	41	21	5	12	196	428	560
CF from Investments	-587	-1,657	-1,725	-4,694	-3,194	-3,073	-3,440
Issue of Shares	-	-	-	3,810	7	-	-
Inc/(Dec) in Debt	351	895	-251	-755	839	-100	300
Interest Paid	-254	-68	-119	-130	-74	-89	-70
Dividend Paid	-	-	-	-116	-377	-377	-471
CF from Fin. Activity	97	825	-370	2,809	395	-566	-241
Inc/Dec of Cash	8	-29	-0	5	124	327	-287
Add: Beginning Balance	20	29	0	0	5	129	456
Closing Balance	29	0	0	5	129	456	169

E: MOFSL Estimates

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