

Happy Forgings

Estimate changes	↔
TP change	↑
Rating change	↔

Bloomberg	HAPPYFOR IN
Equity Shares (m)	94
M.Cap.(INRb)/(USDb)	96 / 1.1
52-Week Range (INR)	1185 / 716
1, 6, 12 Rel. Per (%)	6/24/-16
12M Avg Val (INR m)	51

Consol. Financials & Valuations (INR b)

Y/E March	FY26E	FY27E	FY28E
Sales	15.2	17.9	22.3
EBITDA	4.4	5.4	7.0
Adj. PAT	2.8	3.5	4.8
EPS (INR)	30.1	37.5	51.4
EPS growth %	5.9	24.9	36.9
BV/Sh. (INR)	222	254	297

Ratios

RoE (%)	14.4	15.8	18.7
RoCE (%)	13.2	14.5	17.2
Payout (%)	13.3	16.0	16.5

Valuations

P/E (x)	33.7	27.0	19.7
P/BV (x)	4.6	4.0	3.4
EV/EBITDA (x)	21.2	17.7	13.6
Div. Yield (%)	0.4	0.6	0.8

Shareholding Pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	78.5	78.5	78.6
DII	17.0	17.0	17.1
FII	2.0	2.2	2.3
Others	2.5	2.3	2.0

CMP: INR1,018 TP: INR1,200 (+18%) Buy

Record high margins despite weak export demand

Demand across key segments likely to revive from here

- Happy Forgings' (HFL) 2QFY26 PAT at INR734m was largely in line with our estimate. The key highlight of 2Q was its record high margins at 30.7% (+150bp YoY) in a weak demand environment, especially in exports.
- 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. Given this, we expect HFL to continue to outperform core industry growth. Overall, we expect HFL to post a CAGR of 17%/20%/22% in standalone revenue/EBITDA/PAT during FY25-28E. **We reiterate our BUY rating on the stock with a TP of INR1,200 (based on 27x Sep'27E EPS).**

Margins improve sequentially despite global headwinds

- HFL's revenue was INR3.8b in 2QFY26, up 4.5% YoY, and was largely in line.
- Revenue growth was driven by 5.2% volume growth, while realizations remained largely stable YoY at INR251 per kg.
- Revenue growth was driven by healthy demand across domestic (CVs, tractors, PVs, and non-auto) segments, while exports remained muted due to weak end-market conditions and customer de-stocking amid the evolving tariff situation.
- Despite the adverse global macro, EBITDA margins expanded 150bp YoY to a record high level of 30.7%, ahead of our estimates of 28.8%.
- EBITDA came in at INR1.1b, up 10% YoY and 6% ahead of our estimates on the back of improved gross margins (+150bp YoY).
- However, lower other income at INR63m (INR83m in 2QFY25 and INR104m in Q1FY26) limited PAT growth.
- PAT stood at INR734m, up 10.2% YoY, and was broadly in line.
- HFL's 1HFY26 CFO stood at INR2.2b, while capex was INR2.1b. Cash surplus at the end of Sep'25 stood at INR3.15b.

Key highlights from the management commentary

- Revenue growth is expected to come from the execution of new orders in PV, off-highway (large axle for German OEMs), new lines for wind and heavy tractor, and the industrial business over the medium term. GST rate cuts are likely to further support growth in the domestic markets. Thus, FY27 revenue growth is likely to be much better than the current fiscal.
- With its focus on diversification, they expect the mix for CV + farm to come down to about 50% over the next few years, and the balance to be contributed by Industrial + Off-highway + PV + Others.
- CV business is likely to improve in the coming quarters led by a pick-up in domestic demand and revival of volumes from a key exports OEM.

- While the 2H outlook for the US/European tractor industry remains subdued with an anticipated uncertainty for FY27, the momentum in the off-highway segment is expected to improve in FY27 with new programs ramping up.
- For the new INR6.5b capex for heavy forgings, the company has already garnered orders worth INR3.5b.
- In the US, demand for components in the 50% tariff bracket has sharply reduced, and management is hopeful of a downward revision for this tariff in the coming quarters.

Valuation and view

- HFL is expected to outperform the industry on the back of its healthy order backlog. A recovery in domestic CV demand, a healthy tractor outlook, and strong order wins in Industrials and PVs should help to offset the weakness in export markets in the near term.
- 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. Given this, we expect HFL to continue to outperform core industry growth. Overall, we expect HFL to post a CAGR of 17%/20%/22% in standalone revenue/EBITDA/PAT during FY25-28E. **We reiterate our BUY rating on the stock with a TP of INR1,200 (based on 27x Sep'27E EPS).**

Quarterly (Standalone)

	FY25				FY26E				FY25	FY26	2QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net operating income	3,415	3,611	3,543	3,520	3,538	3,774	3,827	4,018	14,089	15,157	3,792	-0.5
Change (%)	3.5	5.3	3.6	2.5	3.6	4.5	8.0	14.2	3.7	7.6	5.0	
RM/Sales (%)	43.5	41.2	42.0	41.3	42.1	39.7	41.8	42.4	42.0	41.5	42.0	
Staff Cost (%)	8.5	8.5	9.3	9.2	9.1	8.9	8.8	8.8	8.9	8.9	9.0	
Other Exp. (%)	19.4	21.2	20.1	20.4	20.3	20.7	20.6	19.7	20.3	20.3	20.2	
EBITDA	976	1,054	1,015	1,023	1,012	1,158	1,102	1,170	4,067	4,442	1,092	6.0
EBITDA Margins (%)	28.6	29.2	28.6	29.1	28.6	30.7	28.8	29.1	28.9	29.3	28.8	
Non-Operating Income	77	83	66	101	104	63	75	87	376	329	108	
Interest	14	16	21	24	23	19	18	18	75	78	22	
Depreciation	180	197	191	203	206	216	228	236	771	885	220	
EO Exp		-48			0	0	0	0		0	0	
PBT after EO items	859	973	868	897	886	986	931	1,004	3,597	3,807	958	
Tax	220	259	223	219	230	252	239	254	921	975	240	
Eff. Tax Rate (%)	25.6	26.6	25.7	24.4	25.9	25.5	25.7	25.3	25.6	25.6	25.0	
Rep. PAT	639	714	645	678	657	734	692	750	2,676	2,833	719	
Change (%)	-0.3	29.3	11.4	3.0	2.9	2.8	7.2	10.6	-68.1	5.9	0.6	
Adj. PAT	639	666	645	678	657	734	692	750	2,676	2,833	719	2.2
Change (%)	-0.3	20.6	11.4	3.0	2.9	10.2	7.2	10.6	10.1	5.9	7.8	

E: MOFSL Estimates



Key highlights from the management commentary

Outlook

- The 14,000-ton press line utilization stood at ~55–60%, with headroom to go up to ~75%.
- With its focus on diversification, they expect the mix for CV + farm to come down to about 50% over the next few years, and the balance to be contributed by Industrial + Off-highway + PV + Others.
- New order wins for 1H stood at INR800m with better realization. However, 1H growth remained muted due to a decline in the existing business along with a challenging global business environment. 3Q is expected to see the commencement of some of the new orders, which would see a ramp-up in 4Q and beyond, according to the management.
- Revenue growth is expected to come from execution of new orders in PV, off-highway (large axle for German OEMs), new lines for wind and heavy tractor, and the industrial business over the medium term. GST rate cuts are expected to further support growth in the domestic markets. Thus, FY27 revenue growth is likely to be much better than the current fiscal.
- Management is evaluating a few probable inorganic opportunities. These would be largely in forgings space, in areas where HFL would not have a presence, and where they could be able to add some new technology as well as new customers/components.

CV update

- Domestic MHCV saw marginal growth, supported by infrastructure activity, higher freight, and demand from steel/cement/construction.
- However, CV revenues remained muted due to weak export demand. Volumes for one of its key CV export OE fell to 24K run-rate from 40k units YoY in 2Q. However, as per this OEM, its volumes are expected to pick up to 36k run-rate in FY27E, and hence management is hopeful of CV exports recovery in FY27.
- They are working on a few CV orders, which are yet to materialize
- The domestic CV business is expected to improve in the coming quarters on the back of the execution of new orders from a leading CV OEM.

PV update

- Mid-double-digit growth driven by ramp-up of a key SUV program.
- One of the PV export orders to the US is expected to gradually ramp up from 4Q, given the 25% tariff on PV component exports from India.
- HFL would be investing INR800m capex in FY26E for the PV business itself. On the back of the new order wins, it targets to increase the PV contribution to its revenues to 8-10% over the next two years.

Farm/Off-Highway update

- On the back of pick-up in tractor demand in the domestic market, overall tractor mix improved to 34% from 33% YoY.
- While direct exports of tractors are just about 1%, they have deemed exports which eventually go into European / US OEMs. A sharp slowdown (~45% decline) European tractor industry offset the strong growth seen in the domestic

market. The outlook for the US / European tractor industry for H2 remains subdued, with uncertainty over the outlook for FY27.

- Management expects Off-highway momentum to improve in FY27 with new programs ramping up.

Industrials update

- Capex of INR6.5b is on schedule. Phase 1 capex would be INR5.5b
- Out of the INR5.5b, INR1.5b would be for the wind and farm segment, while the remaining INR4b would be for the large hammer. Of the INR6.5b, INR2b would be spent on machining lines in two phases.
- For this new capex, they have already garnered orders worth INR3.5b, of which INR2.5b are for fully machined components and INR1b semi-machined.
- Some of the order wins include: 1) INR3b lifetime order (INR600-700m pa) won for wind shafts, which is likely to commence from Jan'26, 2) fully machined order worth INR1.8b pa for data center application, 3) INR500m order for 500HP tractor to be supplied to Europe / North American markets. Only about 15-20% of the above orders are for the domestic market.
- Once the first phase is operational, management is confident of garnering higher orders as clients are waiting to see their plant before awarding further orders.

Exports update

- 50% of direct exports come from industrials, while the rest come from the CV segment.
- Overall exposure to overseas customers stands at ~40% of revenues: direct exports 18-20%, deemed exports 10-12% and the balance is component assemblies that eventually go to overseas locations.
- US exposure for HFL is about 10% of the mix (direct + deemed). This total US revenue for HFL has fallen by 35-40% which has led to muted exports. While US tariffs on PV component exports from India are 25%, the same for CV components and non-auto, including agri, are 50%. For the 50% tariff category, customers are largely in a wait-and-watch mode and are buying only in cases where inventory has been exhausted. Management is hopeful that the US tariffs, especially for the 50% bracket, will reduce going forward.
- One of the genset orders for the US is currently under testing and is likely to be delayed, given the 50% tariff on the components.

Exhibit 1: SA revenue trend

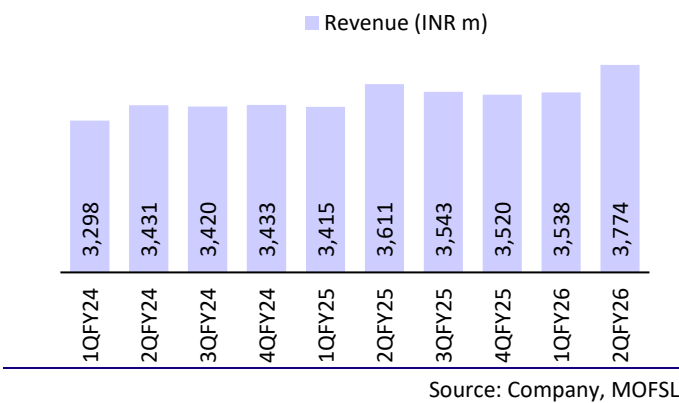


Exhibit 2: SA gross margin trend

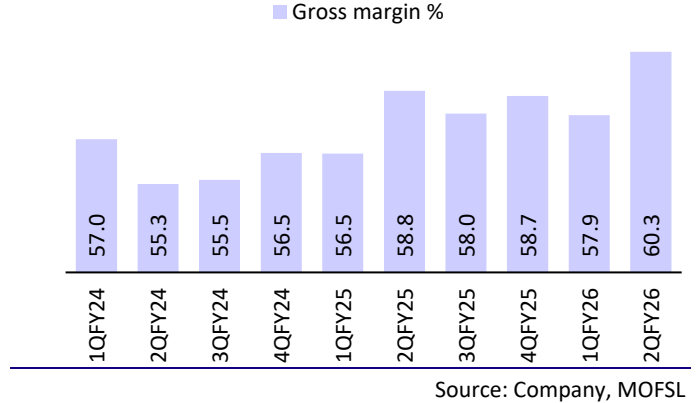


Exhibit 3: EBITDA and margin trends

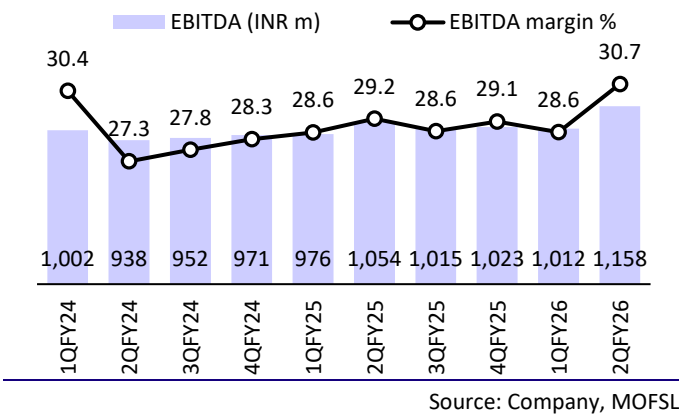
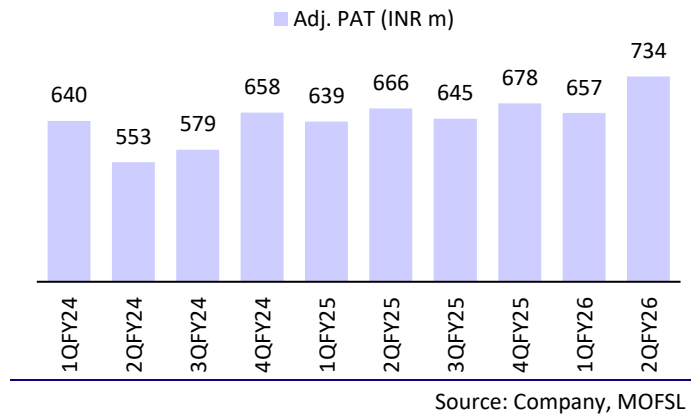


Exhibit 4: Adj. PAT trend over the quarters



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 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 88% in 1HFY26 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 16% in 1HFY26 from just 13% in FY23. Additionally, the contribution from its Industrials segment increased to 13% in 1HFY26 from just 4% in FY23. Further, the PV segment contributed to 5% of revenue in 1HFY26 from nil in FY23. This diversified customer base has helped HFL reduce cyclicity 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.

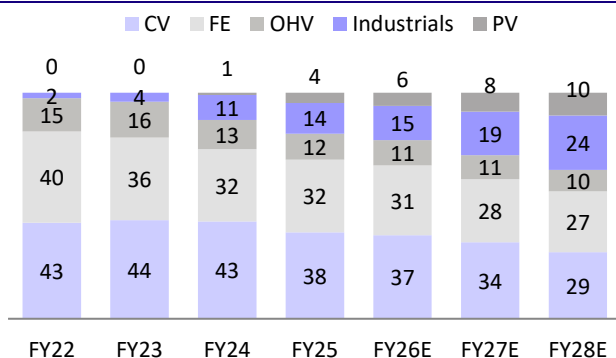
- **Revival in core segments and healthy new orders to offset export weakness:**
HFL's major revenue share is attributed to CV and Farm Equipment, constituting 37% and 34%, respectively, in 1HFY26. After witnessing weak demand over the last couple of years, the CV segment is likely see a pick-up in demand in the coming quarters on the back of the GST rate cuts which is likely to boost economic activity in the country. Even tractor demand is expected to post low double-digit growth in FY26E given a positive rural sentiment. Further, HFL has already secured orders from both domestic and global PV OEMs as also in the industrial segments. These two segments together have a strong order backlog of INR16b to be executed over the next 5-8 years. We expect these factors to help offset the weakness in CV and tractor export markets in the near term. Overall, we expect HFL to post 17% revenue CAGR over FY25-28, largely back-ended.
- **Valuation and view:** 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. Given this, we expect HFL to continue to outperform core industry growth. Overall, we expect HFL to post a CAGR of 17%/20%/22% in standalone revenue/EBITDA/PAT during FY25-28E. **We reiterate our BUY rating on the stock with a TP of INR1,200 (based on 27x Sep'27E EPS).**

Exhibit 5: Our revised forecasts

(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	15.2	15.2	0.0	17.9	17.8	0.6
EBITDA Margin (%)	29.3	28.9	40bp	30.1	29.9	10bp
PAT	2.8	2.8	-0.4	3.5	3.5	0.2
EPS (INR)	30.1	30.2	-0.4	37.5	37.5	0.2

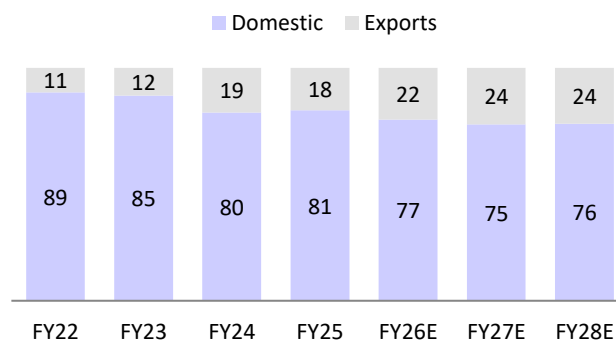
Key operating indicators

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



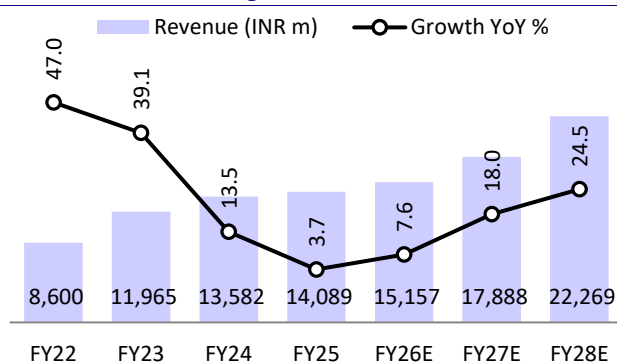
Source: Company, MOFSL

Exhibit 7: Revenue share % of exports to keep improving



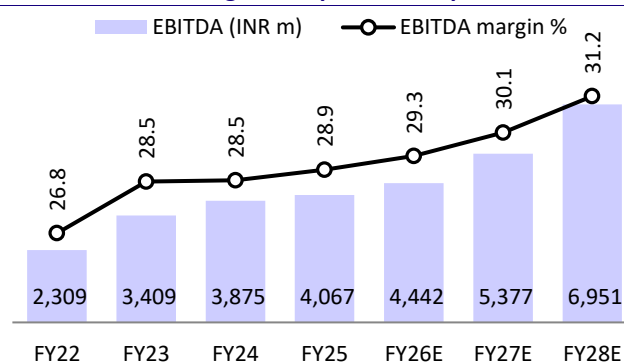
Source: Company, MOFSL

Exhibit 8: Revenue to register ~17% CAGR over FY25-28



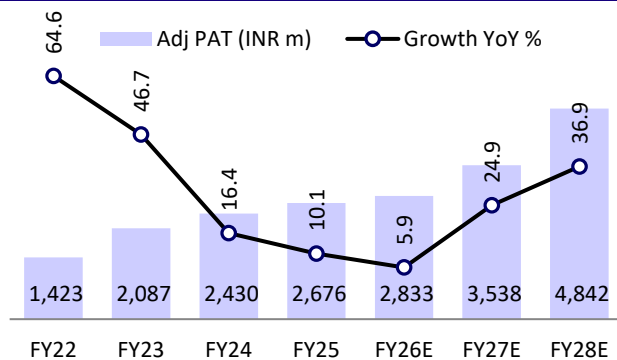
Source: Company, MOFSL

Exhibit 9: EBITDA margin to expand ~230bp over FY25-28



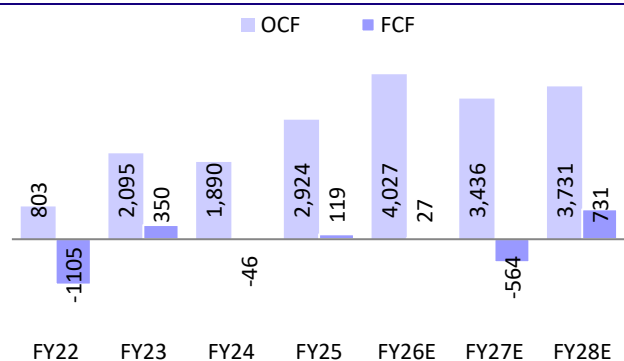
Source: Company, MOFSL

Exhibit 10: PAT to register ~22% CAGR over FY25-28



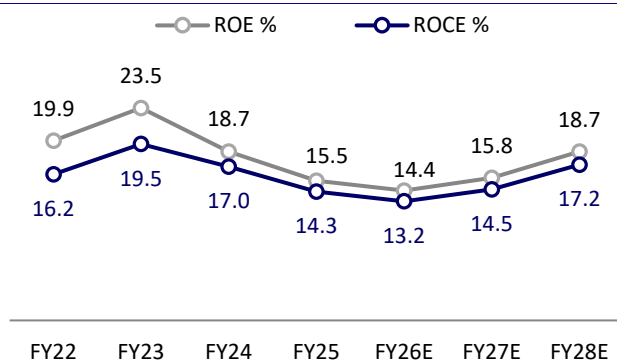
Source: Company, MOFSL

Exhibit 11: Bulk of capex will be met from internal accruals



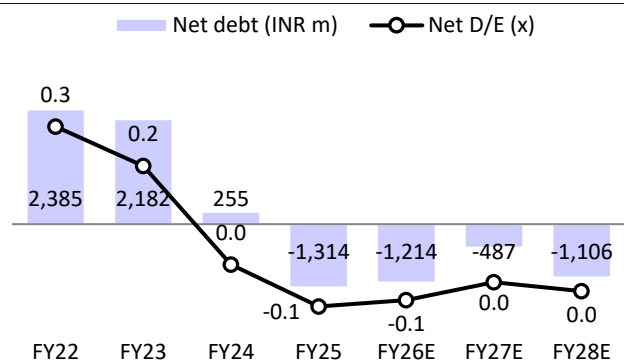
Source: Company, MOFSL

Exhibit 12: Returns to remain steady in the coming years



Source: Company, MOFSL

Exhibit 13: Overall debt continues to decline



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	8,600	11,965	13,582	14,089	15,157	17,888	22,269
Change (%)	47.0	39.1	13.5	3.7	7.6	18.0	24.5
EBITDA	2,309	3,409	3,875	4,067	4,442	5,377	6,951
Margin (%)	26.8	28.5	28.5	28.9	29.3	30.1	31.2
Depreciation	377	542	647	771	885	1,024	1,132
EBIT	1,931	2,868	3,228	3,296	3,557	4,353	5,819
Int. and Finance Charges	72	125	118	75	78	70	61
Other Income	61	58	134	376	329	472	750
PBT after EO Exp.	1,920	2,800	3,244	3,597	3,807	4,756	6,508
Current Tax	471	685	748	848	975	1,217	1,666
Deferred Tax	27	29	65.67	72.81	-	-	-
Tax Rate (%)	25.9	25.5	25.1	25.6	25.6	25.6	25.6
Reported PAT	1,423	2,087	2,430	2,676	2,833	3,538	4,842
Adj PAT	1,423	2,087	2,430	2,676	2,833	3,538	4,842
Change (%)	65	47	16	10	6	25	37

Balance Sheet							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	179	179	188	188	188	188	188
Total Reserves	7,697	9,704	15,937	18,308	20,764	23,737	27,778
Net Worth	7,876	9,883	16,125	18,497	20,953	23,925	27,966
Deferred Liabilities	229	230	316	393	393	393	393
Total Loans	2,404	2,185	1,430	2,273	2,173	2,473	2,373
Capital Employed	10,509	12,299	17,871	21,163	23,519	26,791	30,732
Gross Block	5,858	8,591	9,880	12,277	16,277	20,277	23,277
Less: Accum. Deprn.	1,296	1,807	2,444	3,205	4,091	5,114	6,247
Net Fixed Assets	4,562	6,784	7,437	9,072	12,187	15,163	17,031
Capital WIP	2,123	748	1,267	1,227	1,227	1,227	1,227
Total Investments	4	3	1,169	3,457	2,957	2,857	3,357
Curr. Assets, Loans&Adv.	4,610	5,726	8,987	8,390	8,209	8,790	10,656
Inventory	1,840	1,696	2,242	2,324	2,456	2,898	3,608
Account Receivables	2,220	3,081	3,569	4,265	3,976	4,411	5,247
Cash and Bank Balance	15	0	5	129	430	103	122
Loans and Advances	535	950	3,170	1,671	1,348	1,378	1,678
Curr. Liability & Prov.	790	963	988	983	1,061	1,246	1,538
Creditors	442	477	555	454	543	640	797
Other Current Liabilities	321	448	388	481	468	552	687
Provisions	27	38	45	49	51	54	54
Net Current Assets	3,821	4,763	7,998	7,407	7,148	7,544	9,117
Appl. of Funds	10,509	12,299	17,871	21,163	23,519	26,791	30,732

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)							
EPS	15.9	23.3	25.8	28.4	30.1	37.5	51.4
Cash EPS	20.1	29.4	32.7	36.6	39.4	48.4	63.4
BV/Share	88.0	110.4	171.2	196.3	222.3	253.9	296.8
DPS	-	-	4.0	3.0	4.0	6.0	8.5
Payout (%)	-	-	15.5	10.6	13.3	16.0	16.5
Dividend Yield (%)	-	-	0.4	0.3	0.4	0.6	0.9
FCF per share	-12.4	3.9	-0.5	1.3	0.3	-6.0	7.8
Valuation (x)							
P/E	63.7	43.4	39.3	35.7	33.7	27.0	19.7
Cash P/E	50.3	34.5	31.0	27.7	25.7	20.9	16.0
P/BV	11.5	9.2	5.9	5.2	4.6	4.0	3.4
EV/Sales	10.8	7.8	7.0	6.7	6.2	5.3	4.2
EV/EBITDA	40.3	27.2	24.7	23.1	21.2	17.7	13.6
Return Ratios (%)							
RoE	19.9	23.5	18.7	15.5	14.4	15.8	18.7
RoCE (Post-tax)	16.2	19.5	17.0	14.3	13.2	14.5	17.2
RoIC	18.0	21.5	17.9	15.4	15.0	15.6	17.8
Working Capital Ratios							
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.1	0.9	0.9	1.0
Inventory (Days)	65	54	53	59	58	55	53
Debtor (Days)	82	81	89	101	99	86	79
Creditor (Days)	17	14	14	13	12	12	12
Working Capital (Days)	152	131	171	198	169	144	135
Leverage Ratio (x)							
Net Debt/Equity	0.3	0.2	0.0	-0.1	-0.1	0.0	0.0

Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
(INR m)							
Operating PBT	1,921	2,800	3,244	3,597	3,807	4,756	6,508
Depreciation	377	542	647	771	885	1,024	1,132
Interest/Div paid	-72	-125	118	75	78	70	61
Direct Taxes Paid	-431	-638	-839	-832	-975	-1,217	-1,666
(Inc)/Dec in WC	-1,088	-779	-1,230	486	560	-723	-1,554
Other items	96	295	-50	-1,172	-329	-472	-750
CF from Operations	803	2,095	1,890	2,924	4,027	3,436	3,731
(inc)/dec in FA	-1,908	-1,745	-1,936	-2,804	-4,000	-4,000	-3,000
Free Cash Flow	-1,105	350	-46	119	27	-564	731
(Pur)/Sale of Investments	230	15	-2,770	-587	500	100	-500
Others	21	5	12	196	329	472	750
CF from Investments	-1,657	-1,725	-4,694	-3,194	-3,172	-3,428	-2,750
Issue of Shares	-	-	3,810	7	-	-	-
Inc/(Dec) in Debt	895	-251	-755	839	-100	300	-100
Interest Paid	-68	-119	-130	-74	-78	-70	-61
Dividend Paid	-	-	-116	-377	-377	-565	-801
CF from Fin. Activity	825	-370	2,809	395	-555	-335	-962
Inc/Dec of Cash	-29	-0	5	124	301	-327	19
Add: Beginning Balance	29	0	0	5	129	430	103
Closing Balance	0	0	5	129	430	103	122

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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