

Happy Forgings

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	HAPPYFOR IN
Equity Shares (m)	94
M.Cap.(INRb)/(USD\$)	108.5 / 1.2
52-Week Range (INR)	1194 / 716
1, 6, 12 Rel. Per (%)	2/14/9
12M Avg Val (INR M)	40

Consol. Financials & Valuations (INR b)

Y/E March	FY26E	FY27E	FY28E
Sales	15.4	18.1	22.6
EBITDA	4.6	5.5	7.1
Adj. PAT	3.0	3.6	4.9
EPS (INR)	31.7	38.4	51.5
EPS growth %	11.6	21.0	34.3
BV/Sh. (INR)	224	257	302

Ratios

RoE (%)	15.1	15.9	18.4
RoCE (%)	13.8	14.5	16.9
Payout (%)	12.6	13.0	13.6

Valuations

P/E (x)	36.3	30.0	22.3
P/BV (x)	5.1	4.5	3.8
EV/EBITDA (x)	23.2	19.6	15.1
Div. Yield (%)	0.3	0.4	0.6

Shareholding Pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	78.5	78.5	78.6
DII	16.7	17.0	17.1
FII	1.8	2.0	2.3
Others	2.9	2.5	2.1

CMP: INR1,150 TP: INR1,350 (+17%) Buy

Earnings beat led by better-than-expected margins

Demand outlook improves for core segments

- Happy Forgings' (HFL) 3QFY26 earnings at INR789m beat estimates by 7.5%, led by better-than-expected margin, even as revenue was in line with our estimates. EBITDA margin expanded 220bp YoY to 30.8% (vs an estimate of 29.2%). Margin beat was led by a reduction in steel prices, improved mix, and operating leverage benefit.
- Given its healthy new order wins and an improving mix, we expect HFL to post a 17%/21%/22% CAGR in revenue/EBITDA/PAT over FY25-28. 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 INR1,350 (based on 28x Dec'27E EPS).**

Earnings beat led by better-than-expected margins

- Revenue in 3QFY26 grew 10% YoY to INR3.9b (in line), and was driven by 13.8% YoY growth in volumes (16,323 MT). However, realizations were 3% lower YoY at INR240/kg due to benign steel prices. Volume growth was driven by domestic end-markets across CV, Farm, and PV, but was offset by weaker export conditions. While domestic revenue grew 16% YoY, export revenue declined 13%.
- EBITDA margins expanded 220bp YoY to 30.8% (vs est of 29.2%) and remained largely stable QoQ. As a result, EBITDA grew at a robust 18.7% YoY to INR1.2b (in line).
- The revenue mix during 9MFY26 (vs 9MFY25) was as follows: CV - 37% (38%), Farm Equipment - 33% (32%), Off-highway - 11% (12%), Industrials - 14% (14%), PV - 5% (4%).
- Management indicated that there is no impact of new labor codes on its financials, as the company is already in compliance with the same.
- Due to strong operating performance, PAT grew 22.4% YoY to INR789m (7.5% above estimates).
- For 9MFY26, revenue/EBITDA/PAT grew 6%/11%/9% YoY, respectively.
- OCF generation in 9MFY26 stood at INR3.15b, and capex for 9M stood at INR3b. Cash/cash equivalents stood at over INR4b as of Dec'25.

Key highlights from the management commentary

- HFL now has visibility on incremental business of INR8b at peak annual run-rate, which will help sustain a healthy revenue growth momentum. About 80-85% of this incremental business is likely to be materialized by FY28E. Order breakup: PV – 24%, CV – 27%, Industrials – 44%, and Farm – 4%.

- HFL expects an INR3-4/kg increase in the input sourcing of alloy steel, while the pass-through to the customer is expected to occur with a quarter lag.
- HFL has provided a margin guidance of 29-31% over the medium term, led by an improving mix and rising scrap prices.
- Capex for 9MFY26 stood at INR3b, with capex guidance for FY26 in the range of INR4-5b. Normal capex for FY27E is expected to be INR4b, which will increase to INR4.8b after factoring in the solar power project.
- Total capacity for HFL is expected to increase to 180k MT by FY29, and the machining capacity will rise to 92k MT.

Valuation and view

HFL's cost-competitive advantage is expected to help the company drive sustainable outperformance to the core. Given its healthy new order wins, we expect HFL to post a 17% standalone revenue CAGR over FY25-28. Further, we expect the company to post a 260bp margin expansion to 31.5% over FY25-28, led by an improved mix, operating leverage benefits, and the advantage of solar power generation in the coming years. We, thus, expect HFL to post a 22% earnings CAGR over FY25-28. The company'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 INR1,350 (based on 28x Dec'27E EPS).**

Quarterly (Standalone)

(INR M)

	FY25				FY26E				FY25	FY26E	Variance (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net operating income	3,415	3,611	3,543	3,520	3,538	3,774	3,913	4,170	14,089	15,395	3,968	-1.4
Change (%)	3.5	5.3	3.6	2.5	3.6	4.5	10.4	18.5	3.7	9.3	12.0	
RM/Sales (%)	43.5	41.2	42.0	41.3	42.1	39.7	41.1	41.8	42.0	41.2	41.8	
Staff Cost (%)	8.5	8.5	9.3	9.2	9.1	8.9	8.8	8.7	8.9	8.9	8.8	
Other Exp. (%)	19.4	21.2	20.1	20.4	20.3	20.7	19.3	19.2	20.3	19.9	20.2	
EBITDA	976	1,054	1,015	1,023	1,012	1,158	1,204	1,259	4,067	4,633	1,159	3.9
EBITDA Margins (%)	28.6	29.2	28.6	29.1	28.6	30.7	30.8	30.2	28.9	30.1	29.2	160bp
Change (%)	-2.6	12.4	6.6	5.3	3.6	9.9	18.7	23.1	4.9	13.9		
Non-Operating Income	77	83	66	101	104	63	82	97	376	345	75	
Interest	14	16	21	24	23	19	25	27	75	93	18	
Depreciation	180	197	191	203	206	216	224	246	771	891	228	
PBT after EO items	859	973	868	897	886	986	1,037	1,084	3,597	3,993	988	
Tax	220	259	223	219	230	252	247	278	921	1006	254	
Eff. Tax Rate (%)	25.6	26.6	25.7	24.4	25.9	25.5	23.9	25.6	25.6	25.2	25.7	
Adj. PAT	639	666	645	678	657	734	789	806	2,676	2,987	734	7.6
Change (%)	-0.3	20.6	11.4	3.0	2.9	10.2	22.4	19.0	10.1	11.6	13.8	



Key highlights from the management commentary

Q3 performance

- The volume growth of 13.8% was primarily driven by an uptick in the commercial vehicle (CV), farm, and industrial segments. However, realizations declined 3% YoY, which were slightly lower due to a change in the product mix and declining steel prices.
- Approximately 55-57% of HFL's revenue comes from the domestic CV and farm segments, where revenue has grown 22% YoY in 3QFY26.
- Gross margin expanded as a result of a better product mix and declining raw material prices. This positive momentum is expected to continue in the medium term, driven by an improving mix of exports and industrial sales.
- HFL generated FCF of INR3.15b in 9MFY26, with liquidity now reaching INR4b+.
- The company expects a INR3-4/kg increase in the input sourcing of alloy steel, while the pass through to the customer would occur with a quarter lag.
- HFL has provided a margin guidance of 29-31% over the medium term, led by an improving mix and rising scrap prices.

Order wins

- HFL now has visibility on incremental business of INR8b at peak annual run-rate, which will help sustain a healthy revenue growth momentum. About 80-85% of this incremental business is likely to materialize by FY28E.
- Order breakup: PV – 24%, CV – 27%, Industrials – 44%, and Farm – 4%.
- For the heavy components plant, orders worth INR1.8b are already booked, with some revenue flowing in from FY28, while major revenues are expected to come from FY29.
- Once the plant is online, management is confident of securing incremental orders to fill up the plant.

CV update

- The GST rate cut, infrastructure-led demand, and higher freight activity all supported growth of the domestic CV business for HFL. The company expects this positive momentum to continue in the coming quarters.
- However, the North American and European markets have yet to fully recover, with the US market seeing a more significant decline in CV volumes.
- OEMs in EU markets have raised their volume growth guidance for the industry to 5% for CY26.

PV update

- HFL experienced strong 37% growth in the PV segment in 3QFY26, with the segment contributing a mid-single-digit share of total revenue.
- The ramp-up of export orders in both the ICE and EV segment will support growth on a low base over the next few years.

Farm/OHV update

- HFL experienced softer performance YoY in the off-highway segment, driven by slower project awards and delays in land acquisition contributing to weaker volumes in the domestic market. Further, market environment in EU and US

remained challenging, with its large customer witnessing a dip in volumes. However, management expects exports to improve in FY27.

- On the farm side, domestic industry growth was driven by positive Kharif outlook, improved cash flows, and a normal monsoon season. Demand in the domestic market is expected to continue going forward, while NA and EU industry is expected to remain stable in CY26.
- Farm exports for HFL are expected to grow over a low base in FY27.

Industrials update

- Industrial volumes grew 2% YoY in 3QFY26, and demand was stable due to sustained demand from the power segment.
- The segment outlook was positive due to the expansion of data center ecosystem in the country, solar and grid capacity additions, rail modernization, and maintenance cycles.
- Additionally, HFL has started ramping up production from its 8,000MT press line for industrials, targeting incremental volumes for FY27.

Exports update

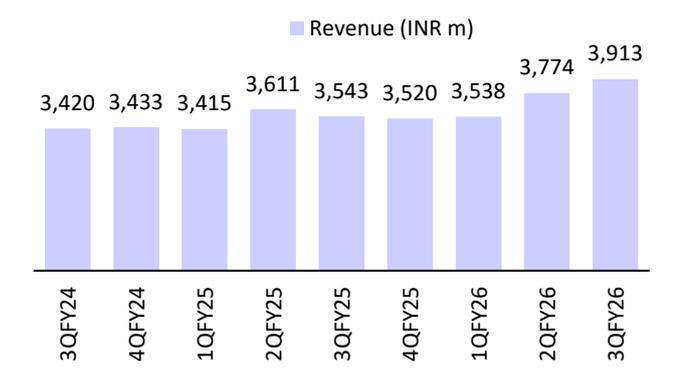
- Currently, both direct and indirect exports make up 25% of HFL's total revenue, with the following breakdown: 8% from industrial, 4% from farm, 10-12% from CV, 1% from PV, and 3% from off-highway.
- Exports to the US, including indirect exports, currently account for 7-8% of HFL's total revenue. The company aims to increase this to 15-16% over the next 2-3 years, driven by PV and industrial programs. However, HFL does not have a presence in the US CV segment so far.
- Tariff uncertainty and weak end-market demand led to subdued export performance in 3QFY26.
- While management awaits the fineprint on India's trade deals with Europe and the US, the outcome is likely to be positive for auto ancillary suppliers.
- In terms of exports ramp-up, the three meaningful orders for HFL include: 1) Three programs in the Industrial segment for genset application, which it has already started supplying; 2) EV business order that has commenced production since Dec'25; and 3) PV export order where it has to build up stock till Jul'26 for launch in US by Sep. Given the clear visibility of the order execution, management expects exports to see a material pick-up in FY27.

Update on capacity

- The company is in the process of commissioning a 10,000-ton forging press in 4QFY26, with plans to add a 4,000-ton press in H1FY27. Following this, its total forging capacity will increase to 150k MT from 127k MT currently.
- Further, once the INR6.5b large capex is commissioned, its total forging capacity will rise to 180k MT.
- In 3QFY26, the company's machining capacity has increased to 68,000 MT, up from 58,200 MT, in anticipation of a rise in volumes.
- The machining capacity is likely to rise to 82k MT in FY27E. This will increase to 92k MT once the heavy forging capex is fully commissioned (this will add two machining lines of 5k T each)

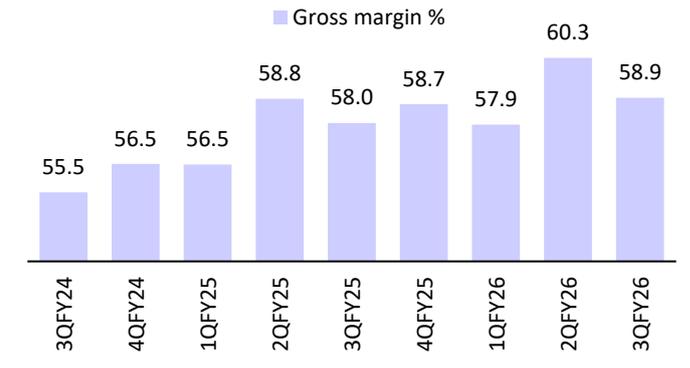
- The company has acquired 80 acres of land for a captive solar power plant, which is expected to commence operations in 3QFY27. This initiative is projected to help reduce power costs by approximately INR250-300m per annum, with peak production expected to commence in Feb'27.
- Capex for 9MFY26 stood at INR3b, with capex guidance for FY26 in the range of INR4-5b. Normal capex for FY27E is expected to be INR4b, which will increase to INR 4.8b after factoring in the solar power project.

Exhibit 1: SA revenue trend



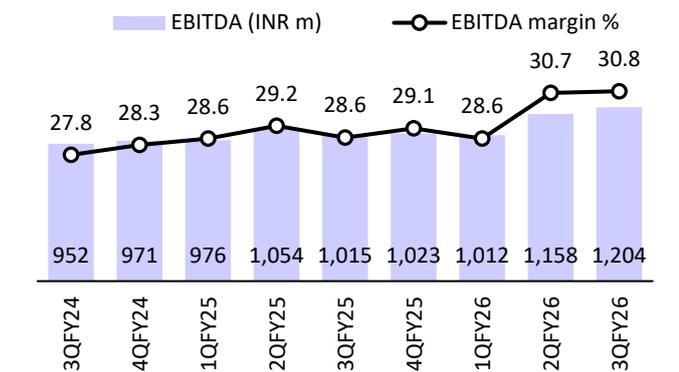
Source: Company, MOFSL

Exhibit 2: SA gross margin trend



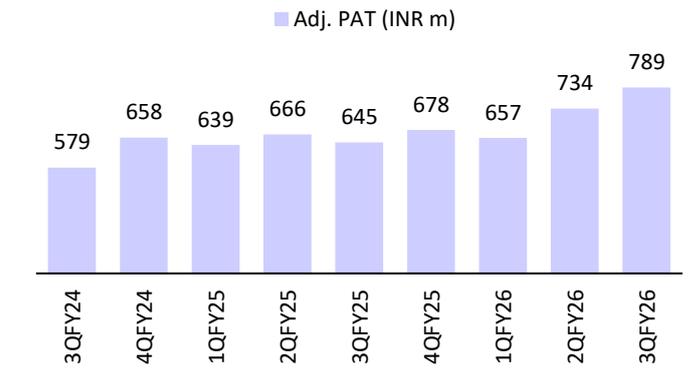
Source: Company, MOFSL

Exhibit 3: EBITDA and margin trends



Source: Company, MOFSL

Exhibit 4: Adj. PAT trend over the quarters



Source: Company, MOFSL

Valuation and view

- **Industrial business to remain the long-term growth driver:** The Industrials segment continues to be a key growth driver for the company. HFL is now investing INR6.5b to set up a heavyweight precision components facility, which will be among the largest in Asia, capable of producing 250-3,000kg forged and fully-machined parts. The company has already secured orders worth INR3.5b from this new facility and expects a further boost once the new plant is on stream and customers gain confidence in its execution capabilities. Given the company's healthy new order wins, we expect the Industrials segment to post a robust 41% revenue CAGR over FY25-28. HFL appears well on track to achieve its guidance of 30% contribution from the Industrials sector by FY30E.
- **PV mix on track to reach 10% of mix in a couple of years:** The PV segment, which is a focus area for the management, remains a major growth driver, contributing 5% of revenue in 9MFY26, up from just 1% in FY24. Leveraging its competitive advantage, the company has won multiple orders over the last few

years, both for domestic and export businesses. To execute these orders, HFL plans to invest INR800m in the PV business in FY26. The company has also set a target for PV contribution to rise to 8-10% of revenue over the next two years.

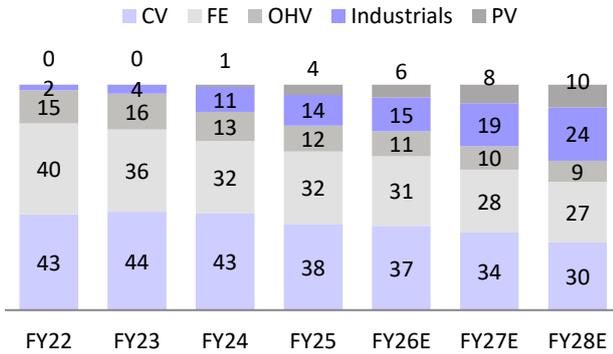
- **Outlook has improved in core segments:** The outlook for HFL’s core segments, domestic CVs and tractors, has improved following the GST rate cuts announced in Sept. While the domestic market outlook has improved, the demand in key developed markets such as the US and Europe is now stabilizing at lower levels. The outlook for CV exports has improved for FY27E, as one of the company’s key export clients anticipates a recovery. Tractor exports are also expected to drive a revenue pick-up for HFL next year, supported by new order wins. Overall, we expect the CV and tractor segments for HFL to deliver a steady 9% revenue CAGR over FY25-28.
- **Valuation and view:** HFL’s cost-competitive advantage would help the company drive sustainable outperformance to the core. Given its healthy new order wins, we expect HFL to post a 17% standalone revenue CAGR over FY25-28. Further, we expect HFL to post a 260bp margin expansion to 31.5% over FY25-28, led by an improved mix, operating leverage benefits, and the advantage of solar power generation in the coming years. We, thus, expect HFL to post a 22% earnings CAGR over FY25-28. 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 INR1,350 (based on 28x Dec’27E EPS).**

Exhibit 5: Our revised forecasts

(INR b)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	15.4	15.4	0.0	18.1	18.1	0.0
EBITDA Margin (%)	30.1	29.4	60bp	30.5	30.2	30bp
PAT	3.0	2.9	3.0	3.6	3.6	0.1
EPS (INR)	31.7	30.8	3.0	38.4	38.3	0.1

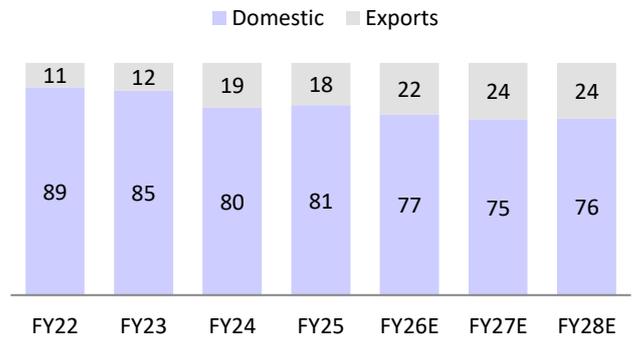
Key operating indicators

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



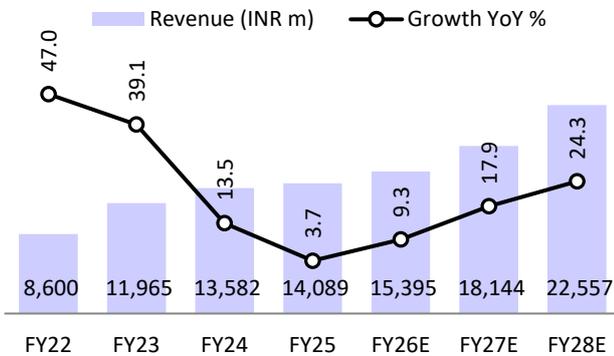
Source: Company, MOFSL

Exhibit 7: Revenue share % of exports to continue improving



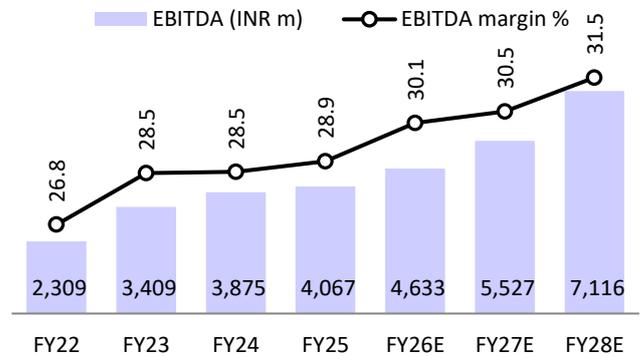
Source: Company, MOFSL

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



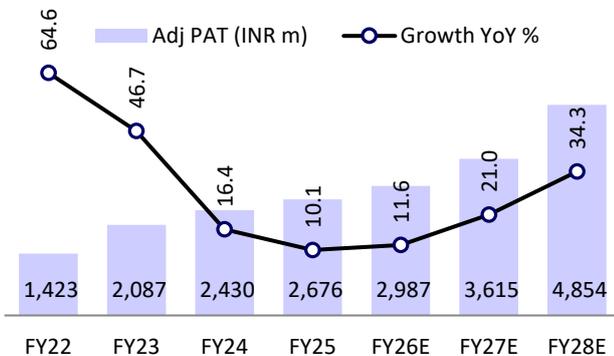
Source: Company, MOFSL

Exhibit 9: EBITDA margin to expand ~260bp over FY25-28



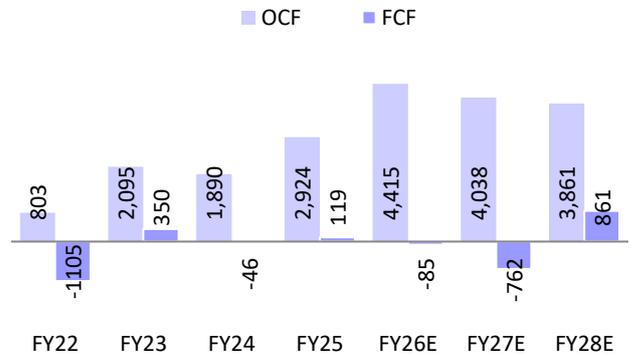
Source: Company, MOFSL

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



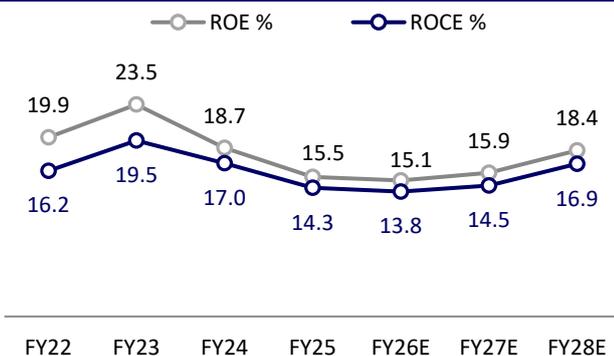
Source: Company, MOFSL

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



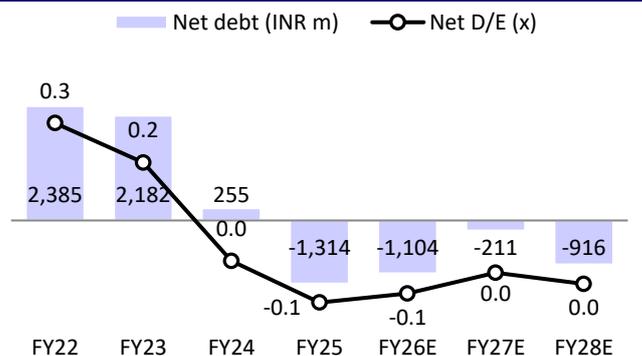
Source: Company, MOFSL

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	15,395	18,144	22,557
Change (%)	47.0	39.1	13.5	3.7	9.3	17.9	24.3
EBITDA	2,309	3,409	3,875	4,067	4,633	5,527	7,116
Margin (%)	26.8	28.5	28.5	28.9	30.1	30.5	31.5
Depreciation	377	542	647	771	891	1,036	1,131
EBIT	1,931	2,868	3,228	3,296	3,742	4,492	5,985
Int. and Finance Charges	72	125	118	75	93	79	66
Other Income	61	58	134	376	345	420	570
PBT after EO Exp.	1,920	2,800	3,244	3,597	3,993	4,833	6,489
Current Tax	471	685	748	848	1,006	1,218	1,635
Deferred Tax	27	29	65.67	72.81	-	-	-
Tax Rate (%)	25.9	25.5	25.1	25.6	25.2	25.2	25.2
Reported PAT	1,423	2,087	2,430	2,676	2,987	3,615	4,854
Adj PAT	1,423	2,087	2,430	2,676	2,987	3,615	4,854
Change (%)	65	47	16	10	12	21	34

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	20,919	24,062	28,257
Net Worth	7,876	9,883	16,125	18,497	21,107	24,251	28,445
Deferred Liabilities	229	230	316	393	393	393	393
Total Loans	2,404	2,185	1,430	2,273	2,273	2,973	2,323
Capital Employed	10,509	12,299	17,871	21,163	23,773	27,617	31,161
Gross Block	5,858	8,591	9,880	12,277	16,777	21,577	24,577
Less: Accum. Deprn.	1,296	1,807	2,444	3,205	4,097	5,132	6,263
Net Fixed Assets	4,562	6,784	7,437	9,072	12,681	16,445	18,315
Capital WIP	2,123	748	1,267	1,227	1,227	1,227	1,227
Total Investments	4	3	1,169	3,457	3,257	3,057	3,097
Curr. Assets, Loans&Adv.	4,610	5,726	8,987	8,390	7,721	8,233	10,183
Inventory	1,840	1,696	2,242	2,324	2,365	2,635	3,275
Account Receivables	2,220	3,081	3,569	4,265	3,933	4,225	5,253
Cash and Bank Balance	15	0	5	129	119	127	142
Loans and Advances	535	950	3,170	1,671	1,303	1,246	1,512
Curr. Liability & Prov.	790	963	988	983	1,112	1,346	1,660
Creditors	442	477	555	454	571	696	865
Other Current Liabilities	321	448	388	481	491	597	742
Provisions	27	38	45	49	51	54	54
Net Current Assets	3,821	4,763	7,998	7,407	6,608	6,887	8,522
Appl. of Funds	10,509	12,299	17,871	21,163	23,773	27,617	31,161

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	31.7	38.4	51.5
Cash EPS	20.1	29.4	32.7	36.6	41.2	49.3	63.5
BV/Share	88.0	110.4	171.2	196.3	224.0	257.3	301.8
DPS	-	-	4.0	3.0	4.0	5.0	7.0
Payout (%)	-	-	15.5	10.6	12.6	13.0	13.6
Dividend Yield (%)	-	-	0.4	0.3	0.3	0.4	0.6
FCF per share	-12.4	3.9	-0.5	1.3	-0.9	-8.1	9.1
Valuation (x)							
P/E	72.4	49.3	44.6	40.5	36.3	30.0	22.3
Cash P/E	57.2	39.2	35.2	31.5	28.0	23.3	18.1
P/BV	13.1	10.4	6.7	5.9	5.1	4.5	3.8
EV/Sales	12.3	8.8	8.0	7.6	7.0	6.0	4.8
EV/EBITDA	45.6	30.8	28.0	26.3	23.2	19.6	15.1
Return Ratios (%)							
RoE	19.9	23.5	18.7	15.5	15.1	15.9	18.4
RoCE (Post-tax)	16.2	19.5	17.0	14.3	13.8	14.5	16.9
RoIC	18.0	21.5	17.9	15.4	15.8	15.9	17.9
Working Capital Ratios							
Fixed Asset Turnover (x)	1.5	1.4	1.4	1.1	0.9	0.8	0.9
Inventory (Days)	65	54	53	59	56	50	48
Debtor (Days)	82	81	89	101	97	82	77
Creditor (Days)	17	14	14	13	12	13	13
Working Capital (Days)	152	131	171	198	163	133	122
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	3,993	4,833	6,489
Depreciation	377	542	647	771	891	1,036	1,131
Interest/Div paid	-72	-125	118	75	93	79	66
Direct Taxes Paid	-431	-638	-839	-832	-1,006	-1,218	-1,635
(Inc)/Dec in WC	-1,088	-779	-1,230	486	789	-272	-1,620
Other items	96	295	-50	-1,172	-345	-420	-570
CF from Operations	803	2,095	1,890	2,924	4,415	4,038	3,861
(inc)/dec in FA	-1,908	-1,745	-1,936	-2,804	-4,500	-4,800	-3,000
Free Cash Flow	-1,105	350	-46	119	-85	-762	861
(Pur)/Sale of Investments	230	15	-2,770	-587	200	200	-40
Others	21	5	12	196	345	420	570
CF from Investments	-1,657	-1,725	-4,694	-3,194	-3,955	-4,180	-2,470
Issue of Shares	-	-	3,810	7	-	-	-
Inc/(Dec) in Debt	895	-251	-755	839	-	700	-650
Interest Paid	-68	-119	-130	-74	-93	-79	-66
Dividend Paid	-	-	-116	-377	-377	-471	-660
CF from Fin. Activity	825	-370	2,809	395	-470	150	-1,376
Inc/Dec of Cash	-29	0	5	124	-10	8	15
Add: Beginning Balance	29	0	0	5	129	119	127
Closing Balance	0	0	5	129	119	127	142

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
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