Happy Forgings Ltd.

Q2FY27 Result Update | Auto Ancillary

Growth Momentum Intact; New Opportunities Expand the Horizon

DALAL & BROACHA STOCK BROKING PVT. LTD.

Equity Research Desk

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Strong Financial Performance Backed by Execution

The company sustained its strong growth momentum in Q2 FY27, with quarterly revenue crossing ₹500 crore for the first time. Growth was largely volume-led, with finished goods volumes increasing ~25% YoY to 18,754 MT, while realisations improved ~6% to ₹267/kg. Higher realisations were supported by raw material cost pass-through, conversion cost-linked price hikes and a favourable product mix, aided by increasing value addition. Despite cost headwinds, gross, EBITDA and PAT margins remained broadly stable YoY, translating into profitability growth in line with revenue growth.

Business Mix & Segment Performance

Growth continued to broaden across end-user industries, with non-automotive segments performing strongly, led by Industrials and Off-Highway applications. Within automotive, PV contribution reached 9%, supported by the ramp-up of previously secured programmes. Farm Equipment and CV segments also registered healthy growth, aided by resilient domestic demand. This reflects the company's continued diversification across end markets and applications.

Capacity Expansion & Growth Opportunities

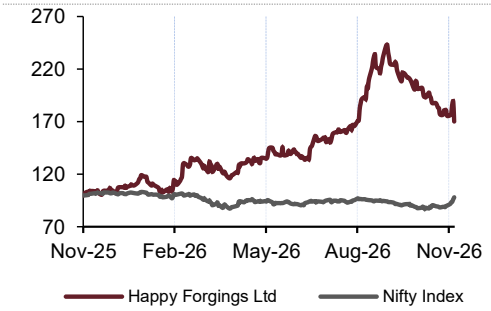
The company is engaging with multiple OEMs for heavy components catering to data centre and gas engine applications, with discussions expected to translate into orders by early FY28. With strong demand visibility, a healthy order book and capacity utilisation nearing peak levels (60% in Forging and 77% in Machining as of H1), the Board has approved additional capex of ~₹500 crore to expand machining capabilities and augment forging capacity. The investments are expected to support growth across PV, Industrials and CV exports.

Rating	TP (Rs)	Up/Dn (%)
HOLD	**1,928**	**14**

Market Data		
Current price	**Rs**	**1,695**
Market Cap (Rs.Bn)	(Rs Bn)	160
Market Cap (US$ Mn)	(US$ Mn)	1,693
Face Value	Rs	2
52 Weeks High/Low	Rs	2484.3 / 970
Average Daily Volume	('000)	219
BSE Code		544057
Bloomberg		HAPPYFOR.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-26	Jun-26
Promoters	78.44	78.46
Public	4.26	4.12
Others	17.3	17.42
Total	**100.00**	**100.00**

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Net sales	11,965	13,582	14,089	15,463	18,247	21,714
EBIDTA	3,409	3,875	4,067	4,706	5,864	7,095
Margins (%)	28.5	28.5	28.9	30.4	32.1	32.7
Adjusted net profit	2,087	2,430	2,674	3,016	3,748	4,566
EPS (Rs)	22.1	25.8	28.4	32.00	39.8	48.5
P/E (x)	76	65	59	53	42	35
EV/EBITDA (x)	47	41	40	34	27	22
RoCE (%)	28.87%	22.07%	19.58%	19.15%	21.60%	23.23%
RoE (%)	21.12%	15.07%	14.46%	14.17%	15.20%	15.86%

Source: Company, Dalal & Broacha

Quarterly Result Summary

Particulars (INR in mn)	Q2 FY27	Q2 FY26	YoY%	Q1 FY27	QoQ%
Revenue from operations	**5,007**	**3,774**	**33%**	**4,494**	**11%**
Other Income	83	63	33%	111	-25%
Total Income	**5,091**	**3,836**	**33%**	**4,605**	**11%**
Cost of Goods Sold	1,961	1,498	31%	1,767	11%
Employee Benefit Expense	409	337	21%	387	6%
Other Expenses	1,106	781	42%	932	19%
Total Expenses	**3,476**	**2,616**	**33%**	**3,086**	**13%**
EBITDA	**1,531**	**1,158**	**32%**	**1,409**	**9%**
Depreciation Expense	279	216	29%	262	6%
EBIT	**1,253**	**943**	**33%**	**1,146**	**9%**
Finance Cost	30	19	**57%**	31	**-3%**
Profit Before Tax (PBT)	**1,306**	**986**	**32%**	**1,226**	**6%**
Tax Expense	331	252	**32%**	312	**6%**
Net Profit (Reported)	**975**	**735**	**33%**	**915**	**7%**
EPS	**10.3**	**7.8**	**33%**	**9.7**	**7%**
Margins			**Changes in bps**		**Changes in bps**
Gross Margins	60.8%	60.3%	52	60.7%	15
EBITDA Margins	30.6%	30.7%	-11	31.3%	-76
PAT Margins	19.2%	19.1%	1	19.9%	-71
Other Operational Matrix			**Changes in bps**		**Changes in bps**
COGS as % of Sales	39%	40%	-52	39%	-15
EBE as % of Sales	8.2%	8.9%	-77	8.6%	-45
OE as % of Sales	22.1%	20.7%	140	20.7%	136

Source: Company, Dalal & Broacha

Volume and Realization Trend

Operational Matrix	Q2 FY27	Q2 FY26	YoY%	Q1 FY27	QoQ%
Finished Goods (MT)	18,754	15,028	25%	17,793	5%
Realisation/Kg (INR)	267	251	6%	253	6%
EBITDA/Kg (INR)	82	77	6%	79	3%

Ramping up the production capabilities: The company's capacity is expected to increase to approximately 217,000 MT in forging and 116,000 MT in machining over the next 2–2.5 years.

Existing Production Capabilities	Capacity	Utilization*
Forging (MT)	1,58,000	60%
Machining (MT)	82,000	77%

Source: Company, Dalal & Broacha
**Utilization levels reflect H1 FY27.*

Concall Highlights:

➢ Segment Mix – H1 FY27

- Commercial Vehicles (33% of revenue): The domestic CV business registered growth in the mid-20s, while exports remained subdued due to longer shipment timelines.
- Farm Equipment (30% of revenue): The segment recorded growth of over 20%, with market share improving to 46% from 42%. The large OEM share-gain programme has been operational for only 2–3 months and is yet to ramp up meaningfully.
- Industrials (16% of revenue): The segment delivered strong growth of approximately 50% during H1 FY27.
- Off-Highway (12% of revenue): Revenue grew approximately 50%, reflecting healthy demand across applications.
- Passenger Vehicles (9% of revenue): Revenue nearly doubled YoY, supported by the ramp-up of previously secured programmes.

➢ New Capex announced of ~₹500 crore

- The company has approved an additional capex of approximately ₹500 crore, to be executed in phases over FY28–FY29, with around 70% allocated towards machining and 30% towards forging. Land for the expansion has already been acquired.
- The proposed investment will be funded through a combination of debt and internal accruals. Debt of approximately ₹300 crore is expected to be sanctioned, although the actual drawdown could be lower.
- The expansion is primarily aimed at catering to demand from mid-series gensets, CV exports and PV applications.
- Including the heavy-component project, the company's capacity is expected to increase to approximately 217,000 MT in forging and 116,000 MT in machining by FY28.
- The new capacity shall add further 24,000 MT Forging capacity and 14,000 MT Machining capacity in a phased manner during FY28 and FY29.

➢ Ultra-Heavy Component Project – ~₹650 crore

- The total project investment of approximately ₹650 crore comprises ~₹300 crore towards the heavy hammer line, ~₹200 crore towards machining lines for the data centre customer and ~₹150 crore towards the vertical upsetter line.
- The company has incurred approximately ₹300 crore of capex so far, with revenue contribution from the project expected to commence from Q3/Q4 FY28.
- Happy Forgings has secured a data centre-related order with an annual revenue potential of approximately ₹300 crore through 2033. The customer has also co-invested in the project.
- The company is discussing an additional opportunity pipeline of approximately ₹1,000 crore and is targeting conversion of around ₹500 crore into orders by March FY27.
- The heavy hammer line can support realisations of up to ₹800/kg for machined components. Management indicated a revenue potential of ₹1,600–1,800 crore from this line.

Order Book and Exports

- The order book stands at approximately ₹950 crore, in addition to orders worth ₹95–100 crore secured during the previous quarter. Exports account for over 50% of the order book.
- The North American PV programme is ramping up, with the facility expected to generate annual revenue of approximately ₹80–100 crore.
- Two new domestic PV programmes are scheduled to commence in Q4 FY27 and Q2 FY28, respectively.

Margins and Cost Trends

- Management expects FY27 margins to remain broadly at FY26 levels, while gross margins and EBITDA per kg are expected to maintain an improving trajectory.
- Raw material cost increases are fully passed through to customers, with approximately 80% of cost increases recovered from domestic OEMs.
- Ocean freight costs peaked in Q2 and have started softening, providing some relief on the logistics cost front.
- The 30 MW DC solar project, along with the 3.5 MW installation, is expected to commence power generation from Q4. The project is estimated to deliver annual power cost savings of approximately ₹30 crore, translating into an EBITDA benefit of around 1.5%.

Management's Growth Aspiration

- Management believes that opportunities across data centres, mid-series engines, PV and Off-Highway applications provide visibility to potentially doubling sales over the next 3–4 years.
- The company expects capex intensity to remain higher, reflecting investments required to support the next phase of growth.

Valuation & Outlook

Happy Forgings is entering its next growth phase, supported by strong order visibility across data centres, PV, Industrials and exports, alongside increasing machining value addition. The proposed ₹500 crore capex and ultra-heavy component project provide significant growth headroom, with potential to double revenues over the next 3–4 years. Strong margins, a comfortable balance sheet and healthy customer commitments provide confidence; however, elevated capex intensity and execution of large projects remain key monitorables. Another important point to note is that Promoter Holding exceeds 75% and thus the pending promoter stake dilution required to meet minimum public shareholding norms remain a potential supply overhang. We estimate a Revenue/EBITDA/PAT CAGR of 18%/23%/23% over FY26–28E.

At CMP of 1,695, the stock is valued at P/E of 35x on FY 28E EPS. We maintain a HOLD rating and value the stock at 40x FY28E EPS arriving at a TP of Rs. 1,928 implying an upside of ~14% from CMP.

Financials

P&L (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Net Sales	**11,965**	**13,582**	**14,089**	**15,463**	**18,247**	**21,714**
Total Raw material consumed	5,511	5,966	5,917	6,318	7,207	8,577
Employee Cost	878	1,145	1,248	1,367	1,572	1,808
Other Expenses	2,168	2,597	2,857	3,073	3,604	4,234
Operating Profit	3,409	3,875	4,067	4,706	5,864	7,095
Depreciation	542	647	771	890	1,154	1,389
PBIT	2,867	3,228	3,296	3,816	4,709	5,706
Other income	58	134	375	308	425	531
Interest	125	118	75	105	138	149
PBT (Before share of JV/associates)	2,800	3,244	3,596	4,019	4,997	6,088
Share of JV/Associates	-	-	-	-	-	-
PBT	2,800	3,244	3,596	4,019	4,997	6,088
Provision for tax	713	814	921	1,003	1,249	1,522
PAT (From continuing operations)	2,087	2,430	2,674	3,016	3,748	4,566
PAT (From Discontinuing operations)	-	-	-	-	-	-
MI						
Reported PAT	**2,087**	**2,430**	**2,674**	**3,016**	**3,748**	**4,566**

Source: Company, Dalal and Broacha Research

Cash Flow St. (Rs. mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
PBT	**2,800**	**3,244**	**3,596**	**4,019**	**4,997**	**6,088**
Add: Dep. & Amort.	542	647	771	890	1,154	1,389
Add: Interest Expenses	125	118	75	105	138	149
Operating profit before working capital change	**3,467**	**4,009**	**4,441**	**5,014**	**6,289**	**7,626**
(Inc)/Dec in						
Working capital adjustment	(779)	(956)	(880)	455	(818)	(1,532)
Gross cash generated from operations	**2,687**	**3,053**	**3,561**	**5,469**	**5,471**	**6,094**
Direct taxes paid	(638)	(814)	(921)	(1,003)	(1,249)	(1,522)
Others	45	(348)	284	(19)	855	1,467
CF from Oper. activities	**2,095**	**1,890**	**2,923**	**4,447**	**5,077**	**6,038**
CF from Inv. activities	(1,725)	(4,693)	(3,202)	(4,968)	(2,999)	(4,500)
CF from Fin. activities	(370)	2,809	402	649	(1,310)	(1,323)
Cash generated/(utilised)	(0)	6	123	128	767	216
Cash at start of the year	0	0	6	129	257	1,024
Cash at end of the year	0	6	129	257	1,024	1,239
Balance sheet	0	6	129	257	1,024	1,239

Source: Company, Dalal and Broacha Research

Balance Sheet (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Equity capital	179	188	188	188	188	188
Reserves	9,704	15,937	18,307	21,093	24,463	28,605
Net worth	**9,883**	**16,125**	**18,495**	**21,281**	**24,652**	**28,794**
Minority Interest	-	-	-	-	-	-
Non Current Liabilites	812	316	393	490	1,490	1,240
Current Liabilites	2,566	2,418	3,263	4,557	3,286	2,828
TOTAL LIABILITIES	**13,262**	**18,860**	**22,152**	**26,327**	**29,428**	**32,862**
Non Current Assets	**8,362**	**11,442**	**12,966**	**15,617**	**18,123**	**21,717**
Fixed Assets	6,784	7,437	9,077	11,084	14,576	18,187
Goodwill	-	-	-	-	-	-
CWIP	748	1,219	1,164	2,294	1,000	500
Long term loans & Advances	600	813	1,511	407	480	572
Non-current assets tax (net)	0	0	0	0	0	0
Deferred Tax Asset	-	-	-	-	-	-
Other Financial Assets	-	-	-	-	-	-
Other Non Current Assets	230	1,925	1,150	1,751	2,066	2,459
Current Assets	**4,893**	**7,418**	**9,186**	**10,711**	**11,305**	**11,144**
Current investments	-	-	-	-	-	-
Inventories	1,696	2,242	2,324	2,328	2,999	3,569
Trade Receivables	3,081	3,569	4,265	3,948	4,499	5,354
Cash and Bank Balances	0	6	129	257	1,024	1,239
Other bank balances	3	1,168	1,236	272	-	-
Short Term Loans and Advances	79	267	799	2,372	1,556	-
Other Financial Assets	0	0	0	0	0	0
Other current assets tax (net)	34	165	432	1,534	1,227	982
Asssets Held for sale	6	-	-	-	-	-
TOTAL ASSETS	**13,262**	**18,860**	**22,152**	**26,328**	**29,428**	**32,862**

Source: Company, Dalal and Broacha Research

Ratios	FY23	FY24	FY25	FY26	FY27E	FY28E
OPM	28.5%	28.5%	28.9%	30.4%	32.1%	32.7%
NPM	17.4%	17.7%	18.5%	19.1%	20.1%	20.5%
Tax Rate	25.5%	25.1%	25.6%	25.0%	25.0%	25.0%
Growth Ratios (%)						
Net Sales	39.1%	13.5%	3.7%	9.8%	18.0%	19.0%
Operating Profit	47.7%	13.7%	4.9%	15.7%	24.6%	21.0%
PBT	45.8%	15.8%	10.8%	11.8%	24.3%	21.8%
PAT	0.0%	16.4%	10.1%	12.8%	24.3%	21.8%
CFO/EBITDA Ratio	60.4%	47.2%	65.8%	88.7%	80.7%	79.2%
CFO/PAT Ratio	100.4%	77.8%	109.3%	147.5%	135.5%	132.2%
Per Share (Rs.)						
Net Earnings (EPS)	22.1	25.8	28.4	32.0	39.8	48.5
Cash Earnings (CPS)	27.9	32.7	36.6	41.4	52.0	63.2
Payout ratio	6%	16%	11%	13%	11%	10%
Dividend	1.3	4.0	3.0	4.0	4.5	5.0
Book Value per share (BVPS)	104.9	171.1	196.3	225.8	261.6	305.5
Free Cash Flow	349	71	512	1,549	430	1,038
Valuation Ratios						
P/E(x)	76.0	65.3	59.3	52.6	42.3	34.8
P/B(x)	16.1	9.8	8.6	7.5	6.4	5.5
EV/EBIDTA(x)	47.1	41.3	39.6	34.4	27.3	22.4
Div. Yield(%)	0.1	0.2	0.2	0.2	0.3	0.3
FCFF Yield(%)	0.2	0.0	0.3	1.0	0.3	0.7
Return Ratios (%)						
ROE	21.1%	15.1%	14.5%	14.2%	15.2%	15.9%
ROCE	28.9%	22.1%	19.6%	19.1%	21.6%	23.2%

Source: Company, Dalal and Broacha Research

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