# Happy Forgings Ltd.

Q2FY26 Result Update | Auto Ancillaries

**Highest-Ever Margins; Domestic Resilience Offsets Export Softness**

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

8 November 2025

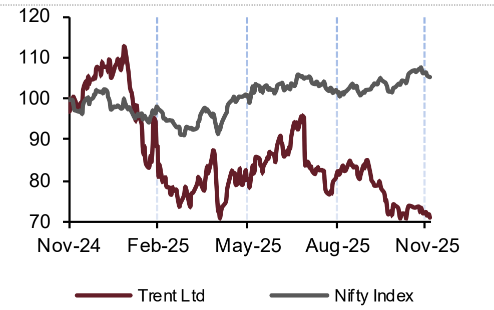
- **Outlook-** Happy Forgings Ltd. (HFL) delivered yet another resilient quarter, sustaining its industry-leading profitability and cash generation despite a weak export environment and continued steel price softness. The company achieved its highest-ever quarterly gross margin (~60%) and EBITDA margin (~31%), underscoring superior execution, product mix improvement, and operational efficiency. Realizations were stable at ₹251/kg in Q2FY26, up from ₹245/kg in Q1, despite a ~10/kg drop in raw material costs, highlighting pricing power in precision-engineered and value-added products.
- **Volumes grew 5.2% YoY to 15,028 MT.**
- **For H1FY26, revenue grew 4.1% YoY to ₹731 Cr, EBITDA 6.9% YoY to ₹217 Cr, and adjusted PAT 6.7% YoY to ₹139 Cr, reflecting consistent execution and superior cost control.**

| Rating | TP (Rs) | Up/Dn (%) |
|---|---|---|
| **ACCUMULATE** | **1,124** | **10** |

| **Market data** | | |
|---|---|---|
| **Current price** | **Rs** | **1,018** |
| Market Cap (Rs.Bn) | (Rs Bn) | 96 |
| Market Cap (US$ Mn) | (US$ Mn) | 1,079 |
| Face Value | Rs | 2 |
| 52 Weeks High/Low | Rs | 1185 / 716.1 |
| Average Daily Volume | ('000) | 53 |
| BSE Code | | 544057 |
| Bloomberg | | HAPPYFOR.IN |

Source: Bloomberg

**One Year Performance**




Source: Bloomberg

| **% Shareholding** | **Sep-25** | **Jun-25** |
|---|---|---|
| Promoters | 37 | 37 |
| Public | 63 | 63 |
| **Total** | **100** | **100** |

Source: Bloomberg

**Financial Summary**

| **Y/E Mar (Rs mn)** | **FY23** | **FY24** | **FY25** | **FY26E** | **FY27E** | **FY28E** |
|---|---|---|---|---|---|---|
| Net sales | 11,965 | 13,582 | 14,089 | 15,177 | 17,804 | 20,881 |
| EBIDTA | 3,409 | 3,875 | 4,067 | 4,430 | 5,293 | 6,308 |
| Margins (%) | 28.5 | 28.5 | 28.9 | 29.2 | 29.7 | 30.2 |
| Adjusted net profit | 2,087 | 2,430 | 2,674 | 2,691 | 3,189 | 3,870 |
| EPS (Rs) | 22.1 | 25.8 | 28.4 | 28.56 | 33.8 | 41.1 |
| P/E (x) | 46 | 39 | 36 | 36 | 30 | 25 |
| EV/EBITDA (x) | 29 | 25 | 24 | 22 | 18 | 15 |
| RoCE (%) | 28.87% | 22.07% | 19.58% | 18.93% | 20.19% | 21.82% |
| RoE (%) | 21.12% | 15.07% | 14.46% | 12.88% | 13.45% | 14.25% |

*Source: Company*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## Q2FY26 Snapshot

| (Rs.Mn) | Q2FY26 | Q2FY25 | YoY Growth | Q1FY26 | QoQ Growth |
|---|---|---|---|---|---|
| **Revenue from Operations** | **3,774** | **3,611** | **5%** | **3,538** | **7%** |
| Other Income | 63 | 131 | -52% | 104 | -40% |
| Total Mfg Cost | 1,498 | 1,486 | 1% | 1,489 | 1% |
| **Gross Profit** | **2,276** | **2,125** | **7%** | **2,049** | **11%** |
| Employee Benefits Expense | 337 | 307 | 10% | 321 | 5% |
| Other Expenses | 781 | 764 | 2% | 717 | 9% |
| Total Expenses | 2,616 | 2,558 | 2% | 2,527 | 4% |
| **EBITDA (Excluding Other Income)** | **1,158** | **1,054** | **10%** | **1,012** | **14%** |
| Depreciation and Amortisation Expenses | 216 | 197 | 10% | 206 | 5% |
| EBIT / PBIT | 1,005 | 989 | 2% | 909 | 11% |
| Finance Costs | 19 | 16 | 21% | 23 | -18% |
| Profit before share in profit of associate & tax | 986 | 973 | 1% | 886 | 11% |
| Share in profit of associate (net of tax) | - | - |  | - | 0% |
| **PBT after share of profit from jv** | **986** | **973** | **1%** | **886** | **-1%** |
| Tax Expense | 252 | 259 | -3% | 230 | 5% |
| **Net Profit after Tax** | **735** | **714** | **3%** | **657** | **-3%** |
| Adj Earning Per Share | 7.80 | 7.58 | 3% | 6.97 | -3% |
|  |  |  |  |  |  |
| **Margins (%)** |  |  | **(in Bps)** |  | **(in Bps)** |
| Gross Margins | 60.3% | 58.8% | 147 | 57.9% | 239 |
| EBITDA Margins (Excl Other Income) | 30.7% | 29.2% | 151 | 28.6% | 210 |
| PAT Margins | 19.5% | 19.8% | -32 | 18.6% | 90 |
|  |  |  |  |  |  |
| RM as a % to sales | 39.7% | 41.2% | 92 | 42.1% | -239 |
| EE Cost as a % to sales | 8.9% | 8.5% | 56 | 9.1% | -13 |
| Other exps as a % to sales | 20.7% | 21.2% | -90 | 20.3% | 43 |

Source: Company, Dalal and Broacha Research

## Concall Highlights:

### A. Segmental Commentary – CV, FE, PV, Industrials & OHV

#### 1) Commercial Vehicles (CV – 37% of Revenue in H1FY26)

- Domestic demand remained strong, supported by infrastructure and construction activity, while export CV volumes were impacted by continued weakness in European markets. Expect further pick up in domestic market in H2, while some recovery expected in Q3FY26 for export market volumes.
- The company is witnessing healthy traction in its domestic CV programs, especially with front axle beam (FAB) production ramping up. HFL expects to achieve ~35,000 FAB output in FY26 (~₹30–40 crore business), scaling up further in FY27 to ~40,000 to 50,000 units.

#### 2) Farm Equipment (FE – 32% of Revenue)

- The domestic FE business reported high single-digit growth, aided by industry demand and favorable monsoon conditions.
- Export demand in the US and EU remains weak but showed early signs of recovery late in Q2.
- Management expects continued momentum in the domestic FE segment in H2, supported by improved rural sentiment.

#### 3) Passenger Vehicles (PV – 5% of Revenue)

- The PV segment in domestic continues to gain momentum, driven by the ramp-up of dedicated production lines for key SUV platforms.
- Management expects PV to increase its share of total revenues to 8–10% over the next two years, supported by both domestic and export orders.
- Export PV orders won over the last 18 months expected to commence ramp-up between November and December 2025, with testing currently underway.

#### 4) Industrials (13% of Revenue)

- The Healthy domestic demand across sectors (especially wind energy, power generation, oil & gas). Globally, renewable investments continue to drive growth. This segment is key to future diversification
- The portable gensets industrial program set to ramp up from Q2 for the US market is seeing delays due to the product facing 50% tariff under current regulations. Business shall resume once tariffs are relaxed.

#### 5) Off Highway Vehicles ( ~10% of Revenue):

- Both domestic and global markets declined in Q2 and H1 FY26. Future support expected from investment in critical minerals, renewable energy, and infrastructure.
- **Inventory Correction**: Inventory correction for European customers is mostly complete, and revival should be seen. However, one major UK customer experienced a sharp fall (from 48,000 units to 24,000 units over two years), though a 50% improvement (to 36,000 units) is projected for next year.

### B. Geographic / Export Details :

- **Total Export Exposure**: Direct exports range from 18% to 20%, while deemed exports (done from the port) are 10% to 12%. Including indirect supplies to domestic customers that are subsequently exported, **total export exposure is close to 40%.**
- **US Market Challenge**: HFL has about 10% direct or indirect business to the US, which fell by almost 35% to 40% in Q2 due to challenging environments. Categories falling under the 50% tariff rate are causing customers to be cautious.
- Volume Split (Q2 Y-o-Y): Domestic volume growth was 10%, while export volume saw a marginal dip

### C. Capacity Expansion & Utilisation

- The company is executing a ₹650 Cr strategic capex to establish advanced forging infrastructure catering to heavy segment precision components, aimed at driving business diversification beyond auto.
- Phase 1 (~₹550 Cr) covers a heavy hammer line (₹400 Cr) and programs for wind & heavy tractors (₹150 Cr), while an additional ₹250 Cr will be invested in machining lines in phases, aligned with utilization ramp-up.
- The investment is backed by ~₹350 Cr p.a. of secured orders, primarily from non-auto industrial applications such as wind energy and 500 HP+ tractors, with ~₹250 Cr being highly machined and margin-accretive.
- Commercialization is expected from Q3FY27, positioning the company for a stronger industrial mix and improved value capture.
- HFL is gaining share in heavy tractor axles & pinions using its New net shape technology, while also entering high-growth areas like wind, mining, defense, and data centers requiring precision machining.
- The 14,000T press currently operates at 55–60% utilization, supported by railways, large gen-sets, and front axle beams, providing further operating leverage as new lines ramp up.

### D. Financial Strength, Margins, and Pricing:

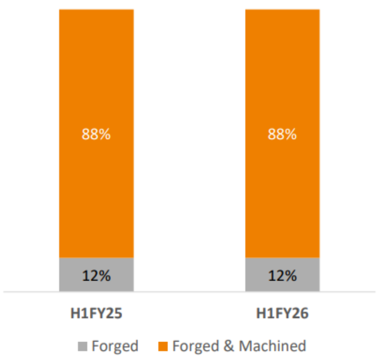
- **Cash Flow and Liquidity:** The company achieved nearly 100% operating cash flow conversion in H1 FY26. Cash liquidity stands at ~315 crores. **Debt:** Net worth is approximately 1900 crores, and the debt-equity ratio remains below 0.1 as of September 30th.
- **Returns:** Return on Equity (ROE) was 18.1% and Return on Capital Employed (ROCE) was 14.6% for FY26, with expectations for improvement
- **Margin Expansion Drivers:** improved product mix with a higher share of value-added machining and the execution of certain high-realization railway tenders (import substitution). Sustainablility of 30%+ EBITDA margins will depend upon future product mix & costs.

### E. Medium-Term Segment Mix Projection (Post-Capex):

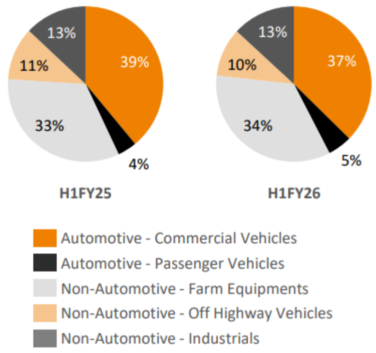
- Management estimates that in the next few years, the revenue mix will be roughly split:
- CV and Farm combined: 50%.
- PV, Industrial, Off-Highway, and other areas: 50%.
- **Inorganic Growth (M&A):** HFL is actively pursuing inorganic opportunities and expects to potentially close a deal within the next 6 to 8 months. The strategy is focused on entering different, niche forging spaces (not similar capacities) with high machining content, where HFL can add value and potentially acquire technology currently lacking.

## Quarterly Charts

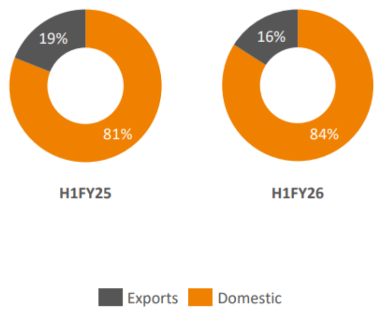
**PRODUCT MIX**




**SECTOR MIX**



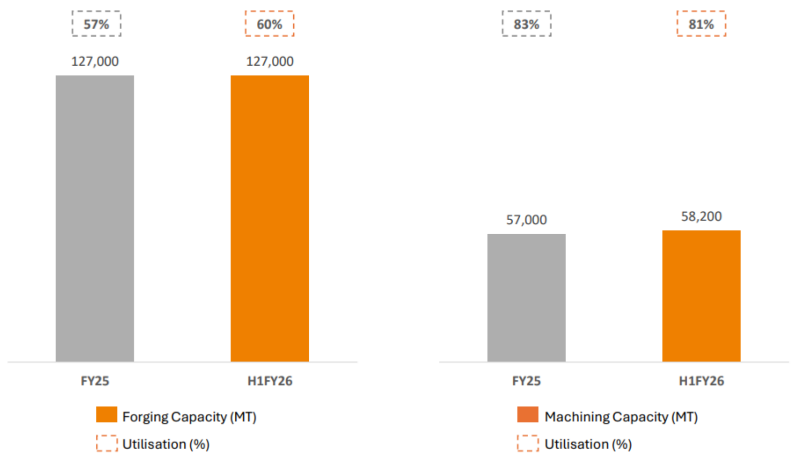

**GEOGRAPHY MIX**




**H1FY26 vs H1FY25 (Volume and Realisation)**

| Particulars | H1FY25 | H1FY26 | YoY |
|---|---|---|---|
| FG Volume (MT) | 28,223 | 29,485 | +4.5% |
| Realisation/Kg (Rs.) | 249 | 248 | (0.4%) |

**Installed Capacity and Utilisation**




Source: Company, *For calculation of Realisation per ton & EBITDA per ton we have not considered other income which basically consists of export related forex gains.

## Valuation & Outlook

**We estimate a Revenue/EBITDA/PAT CAGR of 17%/19%/20% over FY26–28E.** PAT margins are likely to see a temporary dip due to elevated depreciation and finance costs during the heavy capex cycle but EBITDA margin expansion due to new better realisation orders will support bottomline growth faster than topline. Despite conservatively modelling the traditional CV business at just 6-7% CAGR, absolute EBITDA is expected to rise by over 50% by FY28E—reflecting the margin accretion from new segments.

We expect PV, Industrials & Exports to drive growth from here – PV share to increase from current 6% in Q1FY26 to 10%+ by FY28e, Industrials to contribute >20% (current 13% in Q1FY26) by FY28e & overall exports to grow from the current 16-18% to more than 30% basis the new order wins & programs scheduled for ramp-up in the coming years. Keeping in mind the strong 30%+ margins posted in Q2 & basis the understanding that all new order are margin accretive we have raised our EBITDA margin estimates for FY26/27/28. **Overall Revenue estimates have been changed by -4%/-3%/-3% for FY26/27/28e respectively, similarly EBITDA & PAT estimates have been changed by -3%/-2%/-3% & +4%/+3%/+4% respectively.**

Unlike Bharat Forge (trading at ~34x FY27 EPS as per BB Consensus), HFL is still in its early innings of scale, with better growth runway, leaner cost base, and higher operating efficiency**. We assign a 30x Sep-27E EPS to HFL, implying a target price of ₹1,124 —a 10% upside from CMP of Rs. 1018,** and will be still trading at a discount to Bharat Forge despite superior RoCEs and margin profile. The company is deploying additional capital in higher margin & RoCE business centered on complex & advanced heavy forgings in India offering room for valuation rerating**. The stock has already rallied quite a bit from initiating price of Rs 963 . We continue to like the stock from a medium to long term angle & continue to see potential for re-rating. Hence we change our rating from “BUY” to “Accumulate” on the stock.**

Strategically, HFL is capitalizing on the China+1 movement, benefiting from India’s 10–25% cost advantage over Europe/LatAm and emerging as a preferred sourcing hub for global OEMs, Furthermore, its history of consistent execution and diversified exposure across 4 continents ensures cyclicality mitigation and sustained outperformance.

## Financials

| P&L (Rs mn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| Net Sales | 11,965 | 13,582 | 14,089 | 15,177 | 17,804 | 20,881 |
| Total Raw material consumed | 5,511 | 5,966 | 5,917 | 6,253 | 7,300 | 8,498 |
| Employee Cost | 878 | 1,145 | 1,248 | 1,435 | 1,651 | 1,898 |
| Other Expenses | 2,168 | 2,597 | 2,857 | 3,058 | 3,561 | 4,176 |
| **Operating Profit** | 3,409 | 3,875 | 4,067 | 4,430 | 5,293 | 6,308 |
| Depreciation | 542 | 647 | 771 | 881 | 1,143 | 1,393 |
| PBIT | 2,867 | 3,228 | 3,296 | 3,549 | 4,150 | 4,915 |
| Other income | 58 | 134 | 375 | 252 | 315 | 394 |
| Interest | 125 | 118 | 75 | 213 | 213 | 149 |
| PBT ( Before share of JV/associates) | 2,800 | 3,244 | 3,596 | 3,589 | 4,252 | 5,160 |
| Share of JV/Associates | - | - | - | - | - | - |
| PBT | 2,800 | 3,244 | 3,596 | 3,589 | 4,252 | 5,160 |
| Provision for tax | 713 | 814 | 921 | 897 | 1,063 | 1,290 |
| PAT (From continuing operations) | 2,087 | 2,430 | 2,674 | 2,691 | 3,189 | 3,870 |
| PAT (From Discontinuing operations ) | - | - | - | - | - | - |
| MI | | | | | | |
| Reported PAT | 2,087 | 2,430 | 2,674 | 2,691 | 3,189 | 3,870 |
| **Adjusted Profit** | 2,087 | 2,430 | 2,674 | 2,691 | 3,189 | 3,870 |

*Source: Dalal & Broacha Research*

| Balance Sheet ( Rs mn ) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| Equity capital | 179 | 188 | 188 | 188 | 188 | 188 |
| Reserves | 9,704 | 15,937 | 18,307 | 20,716 | 23,528 | 26,974 |
| **Net worth** | **9,883** | **16,125** | **18,495** | **20,904** | **23,717** | **27,162** |
| Minority Interest | - | - | - | - | - | - |
| **Non Current Liabilites** | 812 | 316 | 393 | 893 | 1,393 | 1,143 |
| **Current Liabilites** | 2,566 | 2,418 | 3,263 | 3,195 | 3,145 | 2,644 |
| **Other Liabilities( associated with discontinued operations/ assets held for sale )** | - | - | - | - | - | - |
| **TOTAL LIABILITIES** | **13,262** | **18,860** | **22,152** | **24,992** | **28,255** | **30,949** |
| **Non Current Assets** | **8,362** | **11,442** | **12,966** | **16,179** | **19,349** | **21,953** |
| Fixed Assets | 6,784 | 7,437 | 9,077 | 12,313 | 14,986 | 17,510 |
| Goodwill | - | - | - | - | - | - |
| CWIP | 748 | 1,219 | 1,164 | 1,000 | 1,000 | 500 |
| Long term loans & Advances | 600 | 813 | 1,511 | 1,628 | 1,909 | 2,239 |
| 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 | 1,238 | 1,453 | 1,704 |
| **Current Assets** | **4,893** | **7,418** | **9,186** | **8,813** | **8,906** | **8,996** |
| Current investments | - | - | - | - | - | - |
| Inventories | 1,696 | 2,242 | 2,324 | 2,495 | 2,927 | 3,432 |
| Trade Receivables | 3,081 | 3,569 | 4,265 | 3,950 | 4,390 | 5,149 |
| Cash and Bank Balances | 0 | 6 | 129 | 1,523 | 1,063 | 193 |
| Other bank balances | 3 | 1,168 | 1,236 | - | - | - |
| Short Term Loans and Advances | 79 | 267 | 799 | 500 | 250 | - |
| Other Financial Assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Other current assets tax (net) | 34 | 165 | 432 | 346 | 276 | 221 |
| Asssets Held for sale | 6 | - | - | - | - | - |
| **TOTAL ASSETS** | **13,262** | **18,860** | **22,152** | **24,992** | **28,255** | **30,949** |

| Cash Flow St. (Rs. mn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| **PBT (excluding JV/Associates)** | **2,800** | **3,244** | **3,596** | **3,589** | **4,252** | **5,160** |
| Add: Dep. & Amort. | 542 | 647 | 771 | 881 | 1,143 | 1,393 |
| Add: Interest Expenses | 125 | 118 | 75 | 213 | 213 | 149 |
| **Operating profit before working capital change** | **3,467** | **4,009** | **4,441** | **4,682** | **5,608** | **6,702** |
| **(Inc)/Dec in** | | | | | | |
| Working capital adjustment | (779) | (956) | (880) | 315 | (520) | (1,382) |
| **Gross cash generated from operations** | **2,687** | **3,053** | **3,561** | **4,997** | **5,088** | **5,320** |
| Direct taxes paid | (638) | (814) | (921) | (897) | (1,063) | (1,290) |
| Others | 45 | (348) | 284 | 221 | (78) | (160) |
| **CF from Oper. activities** | **2,095** | **1,890** | **2,923** | **4,321** | **3,947** | **3,870** |
| **CF from Inv. activities** | (1,725) | (4,693) | (3,202) | (2,653) | (3,817) | (3,417) |
| **CF from Fin. activities** | (370) | 2,809 | 402 | (275) | (589) | (1,323) |
| **Cash generated/(utilised)** | (0) | 6 | 123 | 1,393 | (460) | (870) |
| Cash at start of the year | 0 | 0 | 6 | 129 | 1,523 | 1,063 |
| Cash at end of the year | 0 | 6 | 129 | 1,523 | 1,063 | 193 |
| Balance sheet | 0 | 6 | 129 | 1,523 | 1,063 | 193 |

| Ratios | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| OPM | 28.49% | 28.53% | 28.87% | 29.19% | 29.73% | 30.21% |
| NPM | 17.36% | 17.71% | 18.49% | 17.44% | 17.60% | 18.19% |
| Tax Rate | 25.47% | 25.10% | 25.62% | 25.00% | 25.00% | 25.00% |
| **Growth Ratios (%)** | | | | | | |
| Net Sales | 39.12% | 13.51% | 3.73% | 7.72% | 17.31% | 17.28% |
| Operating Profit | 47.67% | 13.67% | 4.95% | 8.94% | 19.47% | 19.18% |
| PBT | 45.82% | 15.84% | 10.85% | -0.19% | 18.50% | 21.34% |
| PAT | 46.69% | 16.43% | 10.07% | 0.64% | 18.50% | 21.34% |
| CFO/EBITDA Ratio | 0.60 | 0.47 | 0.66 | 0.92 | 0.70 | 0.58 |
| CFO/PAT Ratio | 1.00 | 0.78 | 1.09 | 1.61 | 1.24 | 1.00 |
| **Per Share (Rs.)** | | | | | | |
| Net Earnings (EPS) | 22.14 | 25.78 | 28.38 | 28.56 | 33.84 | 41.06 |
| Cash Earnings (CPS) | 27.89 | 32.65 | 36.56 | 37.91 | 45.97 | 55.85 |
| Payout ratio | 6% | 16% | 11% | 14% | 13% | 12% |
| Dividend | 1.30 | 4.00 | 3.00 | 4.00 | 4.50 | 5.00 |
| Book Value per share (BVPS) | 104.87 | 171.10 | 196.26 | 221.82 | 251.66 | 288.23 |
| Free Cash Flow | 349 | 71 | 512 | 204 | 130 | (47) |
| **Valuation Ratios** | | | | | | |
| P/E(x) | 45.97 | 39.49 | 35.87 | 35.64 | 30.08 | 24.79 |
| P/B(x) | 9.71 | 5.95 | 5.19 | 4.59 | 4.05 | 3.53 |
| EV/EBIDTA(x) | 28.71 | 25.12 | 24.12 | 21.87 | 18.40 | 15.46 |
| Div. Yield(%) | 0.13 | 0.39 | 0.29 | 0.39 | 0.44 | 0.49 |
| FCFF Yield(%) | 0.36 | 0.07 | 0.53 | 0.21 | 0.14 | (0.05) |
| **Return Ratios (%)** | | | | | | |
| ROE | 21.12% | 15.07% | 14.46% | 12.88% | 13.45% | 14.25% |
| ROCE | 28.87% | 22.07% | 19.58% | 18.93% | 20.19% | 21.82% |

Source: Company, Dalal and Broacha Research

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