Happy Forgings Ltd.

Q1FY26 Result Update | Auto Ancs

Navigating Headwinds on Back of New Business Wins & Product developments

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

12 August 2025

Outlook- On the Back of new business & product developments - HFL has managed a 6%+ gross profit growth YoY despite cyclical headwinds , macro geopolitical & tariff uncertainties & decreasing steel prices. Favourable turnaround in these factors coupled with new program ramp ups scheduled in the coming yearsvin PV, Industrials & Exports should easily enable HFL to achieve 15-18% CAGR growth in the medium term.

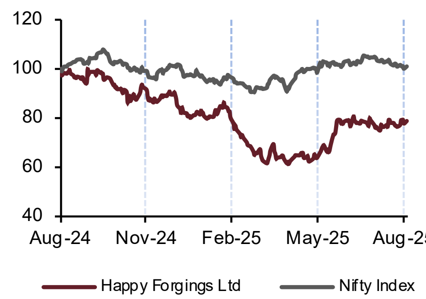
- **New Order wins:** 1) Rs 250 cr order from Europen Farm OEM (50-60 Cr p.a.); 2) Rs 300 Cr Wind Shaft order (60-70 Cr p.a annual potential)
- **Domestic CV & Farm equipment** likely to post high single digit growth in FY26 basis current customer pulls & interactions
- **Capex for FY26 ex-solar** planned to be incurred of ~300 cr. (~120 cr already spent in Q1FY26); solar capex of further 60-70 cr can be expected to be complete by Q1FY27.

Rating	TP (Rs)	Up/Dn (%)
BUY	**1,162**	**19**

Market data		
Current price	**Rs**	973
Market Cap (Rs.Bn)	(Rs Bn)	91
Market Cap (US$ Mn)	(US$ Mn)	1,043
Face Value	Rs	2
52 Weeks High/Low	Rs	1269.45 / 716.1
Average Daily Volume	('000)	10
BSE Code		544057
Bloomberg		HAPPYFOR.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	**Jun-25**	**Mar-25**
Promoters	79	79
Public	21	21
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	15,744	18,367	21,537
EBIDTA	3,409	3,875	4,067	4,563	5,421	6,501
Margins (%)	28.5	28.5	28.9	29.0	29.5	30.2
Adjusted net profit	2,087	2,430	2,674	2,791	3,285	4,015
EPS (Rs)	22.1	25.8	28.4	29.61	34.9	42.6
P/E (x)	44	38	34	33	28	23
EV/EBITDA (x)	27	24	23	20	17	14
RoCE (%)	28.87%	22.07%	19.58%	19.41%	20.52%	22.22%
RoE (%)	21.12%	15.07%	14.46%	13.29%	13.74%	14.60%

Source: Company

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Q1FY26 Snapshot

(Rs.Mn)	Q1FY26	Q1FY25	YoY Growth	Q4FY25	QoQ Growth
Revenue from Operations	3,538	3,415	**4%**	3520	**1%**
Other Income	104	77	35%	100	3%
Total Mfg Cost	1,489	1,486	0%	1455	2%
Employee Benefits Expense	321	290	11%	323	-1%
Other Expenses	717	663	8%	719	0%
Total Expenses	2,527	2,439	4%	2497	1%
EBITDA (Excluding Other Income)	**1,012**	**976**	**4%**	**1023**	**-1%**
Depreciation and Amortisation Expenses	206	180	14%	203	1%
EBIT / PBIT	909	873	4%	920	-1%
Finance Costs	23	14	68%	25	-6%
Profit before share in profit of associate & tax	886	859	3%	896	-1%
Share in profit of associate (net of tax)	-	-	0%	0	0%
PBT after share of profit from jv	**886**	**859**	**3%**	**896**	**-1%**
Tax Expense	230	220	4%	219	5%
Net Profit after Tax	**657**	**639**	**3%**	**676**	**-3%**
Adj Earning Per Share	6.97	6.78	3%	7.18	-3%

Margins (%)			**(in Bps)**		**(in Bps)**
Gross Margins	57.9%	56.5%	144	58.7%	-73
EBITDA Margins (Excl Other Income)	28.6%	28.6%	0	29.1%	-47
PAT Margins	18.6%	18.7%	-14	19.2%	-65
RM as a % to sales	42.1%	43.5%	-144	41.3%	73
EE Cost as a % to sales	9.1%	8.5%	58	9.2%	-9
Other exps as a % to sales	20.3%	19.4%	86	20.4%	-17

Source: Company, Dalal and Broacha Research

Concall Highlights:

Key Financial Highlights:

- Revenue from operations stood at ₹454 crore, up 3.6% year-on-year. This was supported by stable realizations of around ₹245/kg, despite softer raw material prices. Without the fall in steel prices, realizations would have been in the ₹250–₹255/kg range, indicating underlying improvement.
- EBITDA came in at ₹101 crore, with margins at 28.6% (+3.6% YoY)
- PAT was ₹66 crore (+3.2% YoY), translating to a PAT margin of 18.6%.
- Volumes increased 3.8% YoY to 14,457 MT.
- Cash flows improved due to better payment and incoterms with customers, while liquidity remains strong at over ₹350 crore and the working capital cycle continues to be efficient.

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

1) Commercial Vehicles (CV – 39% of Revenue)

- Revenue from the CV segment declined in the mid-single-digit range year-on-year, impacted by weakness in export markets.
- The European CV business recorded an 8–10% fall in volumes during the quarter, marking continued softness in the region.
- Domestic CV revenue growth was broadly in line with or marginally ahead of industry trends, despite flat CV production and a 4% decline in sales in Q1FY26. Numbers expected to pick up for Domestic CV in coming quarters basis ramp up of front axle beams (FAB). Company plans to do ~35,000 FAB production i.e. ~30-40 cr of additional business as compared to FY25 with further ramp up to 50-60 cr by FY27.
- The company has commenced ramp-up of new domestic crankshaft orders, which are expected to partly offset weakness in exports.
- Exports likely to be a drag for the full year FY26 basis export OEM commentary of US & European OEMS of 8-10% degrowth for the full fiscal.

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

- Domestic demand remained robust, supported by a 9% increase in tractor sales and a 13% rise in production in the June quarter. HFL production expected to pick up further in Q2.
- Management expects the domestic FE segment to grow in high single digit in FY26, aided by an above-average monsoon.
- Direct farm equipment exports are minimal, at around 1% of revenues, while indirect or deemed exports contribute approximately 10%, insulating the segment from export market weakness
- The global farm equipment market in the US and Europe remains under pressure, with high single-digit volume declines and OEMs projecting a 5–15% contraction in CY25.
- New Order win for farm equipment direct exports to key European OEM for High HP tractors- business expected to reflect in revenues starting FY27.More such orders in pipeline in finalization stage, expected to be signed in next 3-4 months.

3) Passenger Vehicles (PV – 6% 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 Industrials segment delivered healthy growth during the quarter, led by strong demand from wind energy, power generation, and oil & gas sectors in the domestic market.
- Management anticipates that the current momentum in the industrial business will continue, with deeper penetration into these end markets being a strategic priority.
- New Business Win: HFL has a new order win in Q1FY26 in the wind sector of ~₹300 crore heavy wind shaft order of 150-300 kgs in weightage(₹60–₹70 crore p.a.).
- **Existing Program Ramp Up Update:**
  - ₹145 crore order (28 cr p.a.) for precision machined components for the North American power sector, ramping up from Q2FY26 and reaching full utilisation by Q4FY26.
  - ₹180 crore per annum industrial order for data center components, with capex underway. Capex to be live by FY27, a minimum of 100 cr business can be expected in FY28 from the same.

B. Capacity Expansion & Utilisation

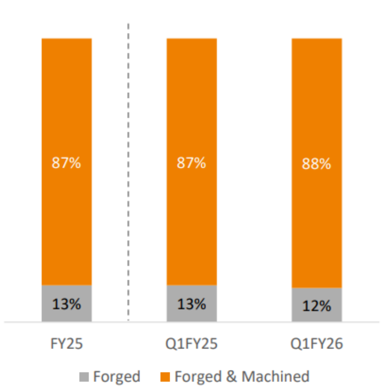
- Current forging capacity utilisation is approximately 59% by units, with the potential to increase by 18–20% as demand recovers.
- Machining capacity utilisation stands at 77% following recent expansions, and is expected to rise to 84–85% as new projects scale up.
- The company is progressing on its ₹650 crore multi-year capex plan expected to be complete by FY27
- FY26 capex mainly includes commissioning 10,000-ton and 4,000-ton presses(For PV) during FY26, adding ~20,000 TPA and taking total forging capacity to ~150,000 TPA.
- ₹80 crore has been earmarked for expanding PV production capacity to cater to growing demand in this segment.
- Capex for FY26 is estimated at ~₹300 crore (excluding solar), with ₹120 crore already spent in Q1FY26.
- The 25 MW solar captive power plant project is also progressing, with 40 acres of land acquired and commissioning expected by Q1FY27.

C. Tariff Mitigation Strategy

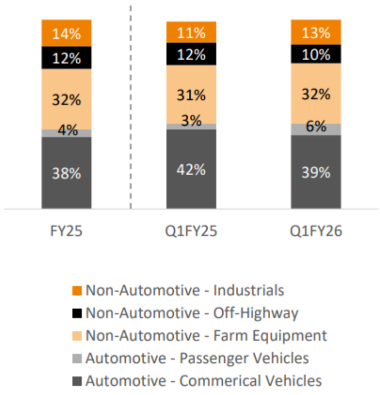
- Direct exposure to the US market is limited to 3–4% of exports. Current US orders are unaffected by tariffs as contracts operate under CIF or DAP terms, with the customer bearing the duty.
- For potential future US exports, even with tariffs of 25–26%, management believes the company can mitigate the impact through:
  a) Favorable currency movements.
  b) Lower steel costs.
  c) Positioning as a preferred alternative to Chinese suppliers and in-house OEM manufacturing.
- Several recent business wins, such as the industrial engine side order for the North American power sector, have been driven by OEMs shifting sourcing from China, which reduces competitive pressure from US manufacturers.

Quarterly Charts

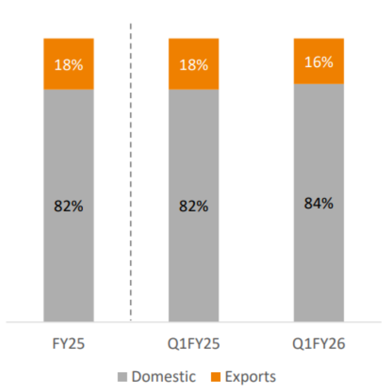
PRODUCT MIX



SECTOR MIX



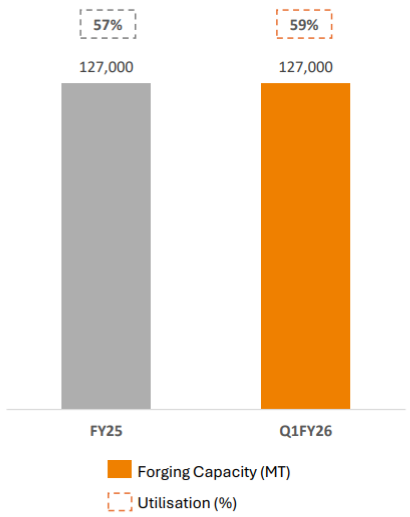
GEOGRAPHY MIX

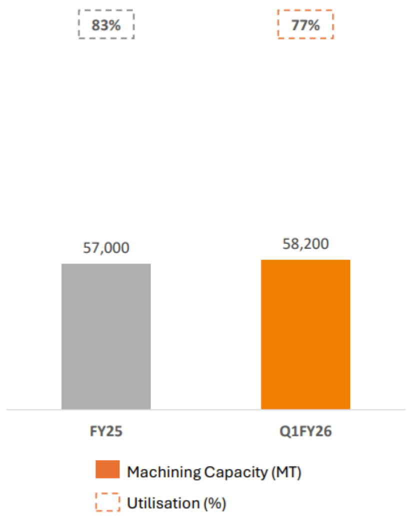


Q1FY26 vs Q1FY25 (Volume and Realisation)

Particulars	Q1FY25	Q1FY26	YoY
FG Volume (MT)	13,933	**14,457**	3.8%
Realisation/Kg (Rs.)	245	**245**	(0.1%)

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 15%/17%/15% over FY25–28E. PAT margins are likely to see a temporary dip due to elevated depreciation and finance costs during the heavy capex cycle. However, despite conservatively modelling the traditional CV business at just 7% CAGR, absolute EBITDA is expected to rise by over 50% by FY28E—reflecting the margin accretion from new segments.

Basis new export wins on the Farm equipment (FE) side we have raised our revenue CAGR estimates on FE side from FY25-28E from earlier 7% CAGR to 13% CAGR basis the new 250 cr order win from export European OEM.

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. **Overall Revenue estimates have been changed by -1%/0%/+4% for FY26/27/28e respectively, similarly EBITDA & PAT estimates have been changed by -2%/-1%/+4% & -2%/-1%/+5% 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 ₹1,162 —a 19% upside from CMP of Rs. 973 ,** 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**. Hence we maintain our "BUY" Rating 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	15,744	18,367	21,537
Total Raw material consumed	5,511	5,966	5,917	6,573	7,622	8,830
Employee Cost	878	1,145	1,248	1,435	1,651	1,898
Other Expenses	2,168	2,597	2,857	3,172	3,673	4,307
Operating Profit	3,409	3,875	4,067	4,563	5,421	6,501
Depreciation	542	647	771	881	1,143	1,393
PBIT	2,867	3,228	3,296	3,682	4,278	5,108
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	3,721	4,380	5,353
Share of JV/Associates	-	-	-	-	-	-
PBT	2,800	3,244	3,596	3,721	4,380	5,353
Provision for tax	713	814	921	930	1,095	1,338
PAT (From continuing operations)	2,087	2,430	2,674	2,791	3,285	4,015
PAT (From Discontinuing operations)	-	-	-	-	-	-
MI						
Reported PAT	2,087	2,430	2,674	2,791	3,285	4,015
BM	2,087	2,430	2,674	2,791	3,285	4,015

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	20,815	23,723	27,314
Net worth	**9,883**	**16,125**	**18,495**	**21,004**	**23,912**	**27,503**
Minority Interest	-	-	-	-	-	-
Non Current Liabilites	812	316	393	893	1,393	1,143
Current Liabilites	2,566	2,418	3,263	3,239	3,197	2,695
Other Liabilities(associated with discontinued operations/ assets held for sale)	-	-	-	-	-	-
TOTAL LIABILITIES	**13,262**	**18,860**	**22,152**	**25,136**	**28,503**	**31,341**
Non Current Assets	**8,362**	**11,442**	**12,966**	**16,286**	**19,455**	**22,077**
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	1,688	1,970	2,310
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	1,285	1,499	1,757
Current Assets	**4,893**	**7,418**	**9,186**	**8,850**	**9,048**	**9,264**
Current investments	-	-	-	-	-	-
Inventories	1,696	2,242	2,324	2,588	3,019	3,540
Trade Receivables	3,081	3,569	4,265	4,098	4,529	5,310
Cash and Bank Balances	0	6	129	1,319	973	192
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**	**25,136**	**28,503**	**31,341**

Cash Flow St. (Rs. mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
PBT (excluding JV/Associates)	**2,800**	**3,244**	**3,596**	**3,721**	**4,380**	**5,353**
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**	**4,815**	**5,736**	**6,895**
(Inc)/Dec in						
Working capital adjustment	(779)	(956)	(880)	97	(503)	(1,424)
Gross cash generated from operations	**2,687**	**3,053**	**3,561**	**4,912**	**5,233**	**5,471**
Direct taxes paid	(638)	(814)	(921)	(930)	(1,095)	(1,338)
Others	45	(348)	284	135	(78)	(174)
CF from Oper. activities	**2,095**	**1,890**	**2,923**	**4,117**	**4,060**	**3,959**
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	1,190	(346)	(781)
Cash at start of the year	0	0	6	129	1,319	973
Cash at end of the year	0	6	129	1,319	973	192
Balance sheet	0	6	129	1,319	973	192

Ratios	FY23	FY24	FY25	FY26E	FY27E	FY28E
OPM	28.49%	28.53%	28.87%	28.98%	29.51%	30.19%
NPM	17.36%	17.71%	18.49%	17.45%	17.58%	18.31%
Tax Rate	25.47%	25.10%	25.62%	25.00%	25.00%	25.00%
Growth Ratios (%)						
Net Sales	39.12%	13.51%	3.73%	11.75%	16.66%	17.26%
Operating Profit	47.67%	13.67%	4.95%	12.20%	18.80%	19.93%
PBT	45.82%	15.84%	10.85%	3.50%	17.71%	22.21%
PAT	46.69%	16.43%	10.07%	4.36%	17.71%	22.21%
CFO/EBITDA Ratio	0.60	0.47	0.66	0.86	0.71	0.57
CFO/PAT Ratio	1.00	0.78	1.09	1.48	1.24	0.99
Per Share (Rs.)						
Net Earnings (EPS)	22.14	25.78	28.38	29.61	34.86	42.60
Cash Earnings (CPS)	27.89	32.65	36.56	38.97	46.99	57.38
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	222.87	253.73	291.84
Free Cash Flow	349	71	512	1	243	42
Valuation Ratios						
P/E(x)	43.94	37.74	34.29	32.86	27.91	22.84
P/B(x)	9.28	5.69	4.96	4.37	3.83	3.33
EV/EBIDTA(x)	27.46	24.03	23.08	20.35	17.20	14.34
Div. Yield(%)	0.13	0.41	0.31	0.41	0.46	0.51
FCFF Yield(%)	0.38	0.08	0.56	0.00	0.27	0.05
Return Ratios (%)						
ROE	21.12%	15.07%	14.46%	13.29%	13.74%	14.60%
ROCE	28.87%	22.07%	19.58%	19.41%	20.52%	22.22%

Source: Company, Dalal and Broacha Research

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