

May 17, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	436		441	
Sales (Rs. m)	15,311	17,098	15,819	18,063
% Chng.	(3.2)	(5.3)		
EBITDA (Rs. m)	2,107	2,639	2,322	2,922
% Chng.	(9.3)	(9.7)		
EPS (Rs.)	15.3	19.8	17.2	22.3
% Chng.	(11.1)	(10.9)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	13,640	13,923	15,311	17,098
EBITDA (Rs. m)	1,893	1,714	2,107	2,639
Margin (%)	13.9	12.3	13.8	15.4
PAT (Rs. m)	1,233	1,114	1,395	1,806
EPS (Rs.)	13.5	12.2	15.3	19.8
Gr. (%)	13.8	(9.6)	25.2	29.5
DPS (Rs.)	1.0	1.0	1.5	2.0
Yield (%)	0.2	0.2	0.3	0.5
RoE (%)	15.5	9.9	11.2	13.0
RoCE (%)	17.2	11.5	13.3	15.4
EV/Sales (x)	2.8	2.8	2.5	2.2
EV/EBITDA (x)	20.5	22.4	18.0	14.2
PE (x)	32.3	35.8	28.6	22.1
P/BV (x)	3.7	3.4	3.1	2.7

Key Data

HRSH.BO | HARSHA IN

52-W High / Low	Rs.494 / Rs.360
Sensex / Nifty	73,664 / 22,404
Market Cap	Rs.40bn/ \$ 478m
Shares Outstanding	91m
3M Avg. Daily Value	Rs.75.5m

Shareholding Pattern (%)

Promoter's	74.61
Foreign	1.61
Domestic Institution	7.43
Public & Others	16.35
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.9	13.3	1.1
Relative	6.8	1.5	(15.0)

Amit Anwani

amitanwani@plindia.com | 91-22-66322250

Shirom Kapur

shiromkapur@plindia.com | 91-22-66322344

Harsha Engineers International (HARSHA IN)

Rating: HOLD | CMP: Rs438 | TP: Rs436

Healthy improvement led by Solar EPC & China

Quick Pointers:

- In FY24, India Engineering domestic sales were flat at Rs4.6bn, while export sales declined 8.7% to Rs4.5bn. Mix stood at 51%/49% (vs 48%/52% in FY23).
- Company guided for 10-15% revenue growth and 20%+ PAT growth in FY25.

We revise our FY26/26E EPS estimates by -11.1%/-10.9% factoring in lower growth in India Engineering and slow turnaround in Romania and downgrade the rating to 'Hold' from 'Accumulate' with a revised TP of Rs436 (Rs441 earlier). Harsha Engineers International (HARSHA) reported 10.7% YoY revenue growth with EBITDA margin falling by 44bps YoY. Solar EPC's annual revenue & margin outlook has vastly improved, aided by favourable renewable energy policies. Although India Engineering's export outlook is moderate, domestic market is seeing healthy traction led by Railways and recovery in Auto & Industrials. Bronze Bushings & Stamped Components saw healthy offtake in Q4 and are expected to ramp up in FY25. China turned PAT positive in Q4 owing to revival in key customer demand and is expected to maintain its momentum in FY25. Meanwhile Romania continues to face headwinds due to muted Wind & Industrial demand in Europe.

HARSHA's long-term outlook remains positive given its 1) market leadership in bearing cages, 2) turnaround in Romania & China, 3) greenfield capacity expansion plans, and 4) multiple levers for growth viz. i) bearing cage outsourcing, ii) capex by global bearing players in India, iii) growing demand for bronze bushings, iv) Japan wallet share gains, and v) opportunities in large-size cages and precision stamped components. The stock is currently trading at a P/E of 28.6x/22.1x FY25/26E. We roll forward to FY26E and value the stock at 22x FY26E (21x Dec-25E earlier). Downgrade to 'Hold'.

Healthy growth in revenue & other income drive PAT higher: Consolidated revenue grew 10.7% YoY to Rs3.8bn (PLe: Rs3.4bn) led by a sharp jump in Solar EPC revenue. Gross margin declined by 246bps YoY to 44.1% (PLe: 46.7%) owing to higher share of lower margin Solar EPC business at 16% (vs 6% in Q4FY23). EBITDA rose 7.4% YoY to Rs545mn (PLe: Rs420mn). EBITDA margin contracted by 44bps YoY to 14.3% (PLe: 12.2%) as the gross margin contraction was partially offset by improvement in margins in Solar EPC and foreign subsidiaries. PAT grew 12.8% YoY to Rs368mn (PLe: Rs207mn) owing to better operating performance, higher other income (+33.2% YoY to Rs78mn) and a lower effective tax rate.

Strong performance in Solar EPC; foreign subsidiaries' margin improves:

Consolidated Engineering revenue fell 1.3% YoY to Rs3.2bn led by International (Romania & China) Engineering falling 15.1% YoY to Rs814mn. India Engineering rose 4.5% YoY to Rs2.4bn. Solar EPC revenue surged to Rs598mn (vs Rs189mn in Q4FY23). Consolidated Engineering EBITDA margin rose to 18.9% (vs 17.4% in Q4FY23) as foreign subsidiaries' margin improved to 2.8% (vs 0.2% in Q4FY23), while India Engineering margin came in at 24.4% (vs 24.6% in Q4FY23). Solar EPC margin rose to 2.8% (vs 0.8% in Q4FY23)

Exhibit 1: Solar EPC drives healthy consolidated revenue growth of 10.7% YoY, but pushes gross margin lower

Y/e March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Revenue	3,437	3,480	3,395	3,245	3,804	10.7	17.2	13,923	13,640	2.1
Total Revenues	3,437	3,480	3,395	3,245	3,804	10.7	17.2	13,923	13,640	2.1
Expenditure	2,929	3,061	3,043	2,847	3,259	11.3	14.5	12,210	11,747	3.9
as % of sales	85.2	88.0	89.6	87.7	85.7			87.7	86.1	
Consumption of RM	1,837	1,921	1,971	1,754	2,127	15.8	21.2	7,772	7,359	5.6
as % of sales	53.4	55.2	58.0	54.1	55.9			55.8	53.9	
Employee Cost	407	434	415	413	429	5.4	3.8	1,691	1,562	8.2
as % of sales	11.8	12.5	12.2	12.7	11.3			12.1	11.5	
Other expenditure	685	706	657	680	703	2.6	3.4	2,747	2,827	(2.8)
as % of sales	19.9	20.3	19.4	21.0	18.5			19.7	20.7	
EBITDA	508	418	352	398	545	7.4	37.2	1,714	1,893	(9.5)
Depreciation	92	96	98	100	100	9.1	(0.4)	393	361	8.9
EBIT	417	323	255	297	446	7.0	49.9	1,320	1,532	(13.8)
Other Income	58	40	67	111	78	33.2	(30.1)	295	298	(1.0)
Interest	26	26	25	28	28	10.5	(0.4)	108	158	(32.0)
PBT	449	336	297	380	495	10.2	30.3	1,508	1,671	(9.8)
Total Tax	123	91	93	83	127	3.3	53.0	393	438	(10.3)
Adjusted PAT	326	246	204	297	368	12.8	23.9	1,114	1,233	(9.6)
(Profit)/loss from MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	326	246	204	297	368	12.8	23.9	1,114	1,233	(9.6)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	326	246	204	297	368	12.8	23.9	1,114	1,233	(9.6)
Adjusted EPS	3.6	2.7	2.2	3.3	4.0	12.8	23.9	12.2	14.6	(16.3)
Margins (%)						YoY bps	QoQ bps			bps
Gross	46.6	44.8	42.0	45.9	44.1	(246)	(184)	44.2	46.1	(188)
EBITDA	14.8	12.0	10.4	12.3	14.3	(44)	209	12.3	13.9	(157)
EBIT	12.1	9.3	7.5	9.2	11.7	(40)	255	9.5	11.2	(175)
EBT	13.1	9.7	8.7	11.7	13.0	(6)	130	10.8	12.3	(142)
PAT	9.5	7.1	6.0	9.1	9.7	18	52	8.0	9.0	(103)
Effective Tax rate	27.4	26.9	31.2	21.9	25.7	(170)	381	26.1	26.2	(15)

Source: Company, PL

Exhibit 2: Foreign subsidiaries see muted revenue but decent margin improvement YoY

Segmental Performance	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY gr. (%)	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Engineering & Others - Consolidated										
Revenue	3,248	3,310	2,976	2,776	3,206	(1.3)	15.5	12,268	12,987	(5.5)
EBITDA	565	488	405	485	606	7.4	25.0	1,984	2,181	(9.0)
EBITDA margin (%)	17.4	14.7	13.6	17.5	18.9	153	144	16.2	16.8	(62)
PAT	326	270	194	280	357	9.4	27.5	1,101	1,231	(10.6)
PAT margin (%)	10.1	8.1	6.5	10.1	11.1	108	105	9.0	9.5	(51)
Engineering & Others - India										
Revenue	2,288	2,392	2,265	2,120	2,392	4.5	12.8	9,169	9,594	(4.4)
EBITDA	563	498	448	463	583	3.7	26.0	1,992	2,065	(3.5)
EBITDA margin (%)	24.6	20.8	19.8	21.8	24.4	(20)	255	21.7	21.5	20
PAT	368	321	279	285	375	1.7	31.6	1,259	1,282	(1.8)
PAT margin (%)	16.1	13.4	12.3	13.4	15.7	(43)	223	13.7	13.4	37
Engineering & Others - Foreign Subsidiaries										
Revenue	960	918	711	656	814	(15.1)	24.1	3,099	3,393	(8.7)
EBITDA	2	(11)	(42)	22	23	1,055.0	5.0	(8)	116	(106.8)
EBITDA margin (%)	0.2	(1.2)	(6.0)	3.4	2.8	263	(52)	(0.3)	3.4	(107.5)
PAT	(42)	(51)	(85)	(5)	(18)	n/a	n/a	(158)	(51)	211.6
PAT margin (%)	(4.4)	(5.6)	(11.9)	(0.7)	(2.1)	221	(146)	(5.1)	(1.5)	241.1
Solar-EPC and O&M										
Revenue	189	170	419	468	598	215.9	27.7	1,655	654	153.2
EBITDA	2	(29)	14	24	17	937.5	(29.4)	24	10	149.0
EBITDA margin (%)	0.8	(17.2)	3.2	5.0	2.8	193	(224)	1.5	1.5	(2)
PAT	(0)	(24)	10	17	11	n/a	(35.3)	14	2	743.8
PAT margin (%)	(0.1)	(13.9)	2.3	3.6	1.8	191	(176)	0.8	0.2	57

Source: Company, PL

Conference Call Highlights

- **FY25 guidance:** 10-15% revenue growth and 20%+ PAT growth.
- **India Engineering:** Continue to have dominant market share in Indian bearing cages market. Benefitting from China + 1 with demand from customers with plants in India to cater to their global requirements.
 - **Domestic:** Expecting 10-12% growth in domestic sales led by railways along with revival in auto and industrial demand. 21-22% EBITDA margin (incl. other income) is sustainable.
 - **Exports:** Outlook is moderate owing to soft demand in global wind and industrial sectors. Some improvement is expected in Auto. Continue to work on outsourcing of production for key customers across Europe, Japan, USA. Expect 8-10% growth in export sales from India in FY25.
- **Bronze Bushings:** Reported ~Rs400mn sales in FY24; expecting Rs700-750mn+ sales in FY25 including some spillover from FY24. Seeing healthy demand in Indian wind market. Global market potential is ~Rs50bn (at 100% transition to bushing-based gearboxes) and Harsha is targeting ~10% market share, implying ~Rs5bn peak annual revenue. Can do ~Rs1bn sales with current capacity. Adding additional capacity via greenfield expansion (commissioning by Q4FY25) and will continue to add more as demand rises.
- **Stamped Components:** Reported ~Rs500mn sales in FY24; expecting ~50% growth in FY25 led by railways and automotive sectors.
- **Sales to Japanese customers grew ~10% in FY24 to ~Rs650mn**, which were below expectations as some projects in the pipeline got delayed. They are now back on track and sales are expected to grow 20-30% in FY25.
- **Romania:** Continues to face headwinds as there is no demand revival in wind and industrial segments in Europe. Aiming to improve product mix by increasing share of cages from ~15% to ~30% in FY25 in order to breakeven or better in FY25. Ideal blended EBITDA margin is 6-8% in a good year. Reported ~Rs2.2bn revenue in FY24. Capacity utilization stands at 20-25% for castings and 40%+ for bearings.
- **China:** Recorded positive PAT in Q4FY24 aided by revival in demand from key customers. Expecting this trend to continue in FY25. Targeting 12-13% blended EBITDA margin. Reported ~Rs0.9bn revenue in FY24. Capacity utilization stands at 50-60%.
- **Solar EPC:** Favorable renewable energy policy has driven strong growth. Revenue can be Rs1.5-2bn annually. Margin is lower versus peers due to lower scale and certain legacy costs, but can improve to mid-single digits going forward. Strategy continues to be on limited capital allocation in this segment, with no plans to venture out of Gujarat.
- **Planning ~Rs3bn capex over next 2-3 years** for the greenfield expansion with capacity being added in bronze bushings and large size cages (for industrial bearings) in Phase 1, which will be operational by Q4FY25. Also plan to add stamped components capacity. Ideal asset turnover is 2x.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	13,640	13,923	15,311	17,098
YoY gr. (%)	3.2	2.1	10.0	11.7
Cost of Goods Sold	7,359	7,772	8,319	9,107
Gross Profit	6,282	6,151	6,992	7,990
Margin (%)	46.1	44.2	45.7	46.7
Employee Cost	1,562	1,691	1,845	2,000
Other Expenses	815	801	880	975
EBITDA	1,893	1,714	2,107	2,639
YoY gr. (%)	12.0	(9.5)	23.0	25.2
Margin (%)	13.9	12.3	13.8	15.4
Depreciation and Amortization	361	393	421	465
EBIT	1,532	1,320	1,686	2,173
Margin (%)	11.2	9.5	11.0	12.7
Net Interest	158	108	104	100
Other Income	298	295	308	367
Profit Before Tax	1,671	1,508	1,890	2,441
Margin (%)	12.3	10.8	12.3	14.3
Total Tax	438	393	495	635
Effective tax rate (%)	26.2	26.1	26.2	26.0
Profit after tax	1,233	1,114	1,395	1,806
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,233	1,114	1,395	1,806
YoY gr. (%)	34.1	(9.6)	25.2	29.5
Margin (%)	8.8	7.8	8.9	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,233	1,114	1,395	1,806
YoY gr. (%)	34.1	(9.6)	25.2	29.5
Margin (%)	9.0	8.0	9.1	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,233	1,114	1,395	1,806
Equity Shares O/s (m)	91	91	91	91
EPS (Rs)	13.5	12.2	15.3	19.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	7,864	8,568	9,736	10,949
Tangibles	7,752	8,456	9,624	10,949
Intangibles	112	112	112	-
Acc: Dep / Amortization	4,715	5,108	5,529	5,995
Tangibles	4,616	5,005	5,422	5,995
Intangibles	99	103	108	-
Net fixed assets	3,149	3,460	4,207	4,954
Tangibles	3,136	3,451	4,203	4,954
Intangibles	13	9	4	-
Capital Work In Progress	116	152	184	171
Goodwill	718	718	718	718
Non-Current Investments	365	455	393	390
Net Deferred tax assets	(66)	(77)	(77)	(77)
Other Non-Current Assets	127	246	136	142
Current Assets				
Investments	1,610	1,961	2,250	2,400
Inventories	3,769	3,537	3,817	4,216
Trade receivables	2,804	3,189	3,356	3,607
Cash & Bank Balance	1,336	1,216	1,443	1,732
Other Current Assets	345	319	567	633
Total Assets	14,451	15,666	17,254	19,167
Equity				
Equity Share Capital	910	910	910	910
Other Equity	9,807	10,842	12,146	13,772
Total Network	10,718	11,753	13,057	14,682
Non-Current Liabilities				
Long Term borrowings	122	63	48	33
Provisions	84	86	101	100
Other non current liabilities	0	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,700	1,704	1,654	1,604
Trade payables	1,174	1,329	1,552	1,827
Other current liabilities	561	617	728	810
Total Equity & Liabilities	14,451	15,666	17,254	19,167

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	1,671	1,508	1,890	2,441
Add. Depreciation	361	393	421	465
Add. Interest	158	108	104	100
Less Financial Other Income	298	295	308	367
Add. Other	(163)	(273)	(289)	(320)
Op. profit before WC changes	2,028	1,736	2,126	2,686
Net Changes-WC	(283)	(12)	(230)	(375)
Direct tax	(375)	(366)	(495)	(635)
Net cash from Op. activities	1,370	1,358	1,400	1,676
Capital expenditures	(738)	(741)	(1,200)	(1,200)
Interest / Dividend Income	74	148	289	320
Others	(2,453)	(986)	(137)	(363)
Net Cash from Invt. activities	(3,117)	(1,578)	(1,047)	(1,242)
Issue of share cap. / premium	4,343	0	-	-
Debt changes	(2,027)	(55)	(65)	(64)
Dividend paid	-	(91)	(91)	(181)
Interest paid	(158)	(108)	(104)	(100)
Others	-	0	-	-
Net cash from Fin. activities	2,157	(254)	(260)	(345)
Net change in cash	410	(474)	93	89
Free Cash Flow	632	617	200	476

Source: Company Data, PL Research

Key Financial Metrics

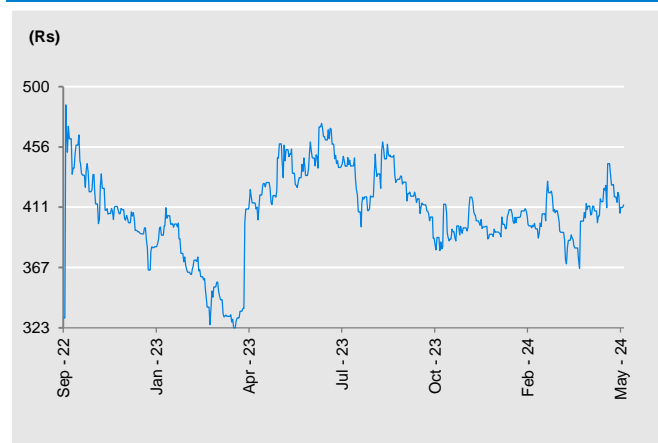
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	13.5	12.2	15.3	19.8
CEPS	17.5	16.6	19.9	24.9
BVPS	117.7	129.1	143.4	161.3
FCF	6.9	6.8	2.2	5.2
DPS	1.0	1.0	1.5	2.0
Return Ratio(%)				
RoCE	17.2	11.5	13.3	15.4
ROIC	18.9	11.7	13.9	16.1
RoE	15.5	9.9	11.2	13.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	144	141	134	128
Valuation(x)				
PER	32.3	35.8	28.6	22.1
P/B	3.7	3.4	3.1	2.7
P/CEPS	25.0	26.4	22.0	17.6
EV/EBITDA	20.5	22.4	18.0	14.2
EV/Sales	2.8	2.8	2.5	2.2
Dividend Yield (%)	0.2	0.2	0.3	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	3,480	3,395	3,245	3,804
YoY gr. (%)	15.7	(1.2)	(4.4)	17.2
Raw Material Expenses	1,921	1,971	1,754	2,127
Gross Profit	1,558	1,424	1,491	1,677
Margin (%)	44.8	42.0	45.9	44.1
EBITDA	418	352	398	545
YoY gr. (%)	2.0	(30.6)	12.8	37.2
Margin (%)	12.0	10.4	12.3	14.3
Depreciation / Depletion	96	98	100	100
EBIT	323	255	297	446
Margin (%)	9.3	7.5	9.2	11.7
Net Interest	26	25	28	28
Other Income	40	67	111	78
Profit before Tax	336	297	380	495
Margin (%)	9.7	8.7	11.7	13.0
Total Tax	91	93	83	127
Effective tax rate (%)	26.9	31.2	21.9	25.7
Profit after Tax	246	204	297	368
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	246	204	297	368
YoY gr. (%)	(22.6)	(37.5)	45.6	23.9
Margin (%)	7.1	6.0	9.1	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	246	204	297	368
YoY gr. (%)	(22.6)	(37.5)	45.6	23.9
Margin (%)	7.1	6.0	9.1	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	246	204	297	368
Avg. Shares O/s (m)	91	91	91	91
EPS (Rs)	2.7	2.2	3.3	4.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Apr-24	Accumulate	441	412
2	09-Feb-24	Accumulate	441	396
3	09-Jan-24	Accumulate	415	395
4	08-Nov-23	Accumulate	415	393
5	05-Oct-23	Accumulate	474	415
6	02-Aug-23	Accumulate	474	432
7	06-Jul-23	Accumulate	475	469
8	27-May-23	Accumulate	475	436

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	7,984
2	Apar Industries	Accumulate	8,877	8,340
3	BEML	Accumulate	4,004	3,803
4	Bharat Electronics	Hold	182	229
5	BHEL	UR	-	263
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	2,480	3,001
8	Engineers India	Hold	257	223
9	GE T&D India	UR	-	930
10	Grindwell Norton	Accumulate	2,512	2,196
11	Harsha Engineers International	Accumulate	441	412
12	Hindustan Aeronautics	Hold	2,787	3,565
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	750	737
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	636	520
17	Siemens	Accumulate	7,030	6,660
18	Thermax	Reduce	3,923	4,609
19	Triveni Turbine	BUY	532	555
20	Voltamp Transformers	Hold	10,018	9,985

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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