



**June 3, 2024**

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| <b>BSE Limited</b><br>1st Floor, New Trading Ring,<br>Rotunda Building,<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street, Mumbai 400001<br><br><b>Scrip Code: 544057</b> | <b>National Stock Exchange of India Ltd</b><br>Exchange Plaza, 5th Floor,<br>Plot No. C/1, G block,<br>Bandra-Kurla Complex,<br>Bandra (E), Mumbai 400051.<br><br><b>Symbol: HAPPYFORGE</b> |
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Dear Sir/Ma'am,

**Sub: Transcript of the Earnings Conference Call for the Quarter and year ended 31st March 2024 held on Monday, 27th May 2024.**

*Ref: Intimation of Earnings Conference Call Invite to discuss operational and financial performance of the Company for the quarter and year ended 31st March 2024.*

Pursuant to Regulation 30 of the Listing Regulations, kindly find enclosed the copy of transcript of the Investor call held on 27<sup>th</sup> May, 2024 at 9:30 A.M. (Indian Standard Time) on the audited financial results for the quarter and year ended March 31, 2024.

Kindly take the same on records  
Thanking you,

**FOR HAPPY FORGINGS LIMITED**

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# Happy Forgings Limited

## Q4 & FY24 Earnings Conference Call

**May 27, 2024**

**Disclaimer: E&OE - This transcript is edited for grammatical and other transcribing errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 27<sup>th</sup> May 2024 will prevail. In case of any conflict of factual information with published data in the Investor Presentation, the later should be considered to be accurate.**



**MANAGEMENT: MR. ASHISH GARG – MANAGING DIRECTOR, HAPPY FORGINGS LIMITED**  
**MR. PANKAJ GOYAL – CFO, HAPPY FORGINGS LIMITED**



HAPPY FORGINGS LIMITED

*Happy Forgings Limited  
May 27, 2024*

**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY24 earnings conference call of Happy Forgings Limited.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Garg – Managing Director from Happy Forgings Limited. Thank you and over to you sir.

**Ashish Garg:** Good morning and a very warm welcome to all.

With me I have Mr. Pankaj Goyal – CFO of the company and our Investor Relation Advisors; Strategic Growth Advisors.

For the Quarter 4 Results; we have uploaded our Presentation on the Exchanges and I hope everybody had an opportunity to go through the same.

Let me start with the brief Overview of the business for the quarter and the year gone by. FY24 has been an important year in our 45-year long journey, making our entry into public capital markets and I am pleased to share that we closed this year on a positive note, with improvements on three dimensions:

- Growth.
- Margins.
- Revenue Diversification.

Despite the slowdown in the key industry segments and the Red Sea crisis, we achieved 16% growth in revenues, 22% growth in EBITDA margin and 27% growth in our PAT margin on year-on-year basis. We managed to improve our gross margin by 300 basis points, EBITDA margin by 150 basis points and PAT margin by 160 basis points to 17.9% in FY24. This was on the back of our conscious efforts over the years to increase the contribution of machined products, change in segment mix towards higher share of industrial products and increase in exports contribution.

For FY24, finished goods volume grew by 9% to 55,400 metric ton while EBITDA per kg improved by 12% to Rs .70 per kg from Rs. 63 per kg. This enhancement in profitability per unit

is a testament to our relentless focus on operational efficiencies and value creation. While these metrics provide some insights into our performance, it is essential to recognize that our company is primarily focused on machining of high precision products which is in 5 to 10 micron category and operates across diverse range of product options spanning from 5 kg to 250 kg. For FY24, contribution of machined products which has higher realization and margin increased from 79% to 85%. Share of industrial business increased from 4% to 12% leading to further diversification of the business in the non-auto sector, exports increased from 13% to 20%. These efforts over the years, along with our leveraging in-house capabilities, fungible production lines and advanced technology adoption, we are well insulated to navigate challenges.

One of the significant highlights of fiscal year was our foray into passenger vehicle sector, both domestically and in export markets. With the recent order wins from leading global OEMs in the sector, we demonstrated our capability to expand wallet share from existing customers giving us good visibility to achieve 8% to 10% contribution to sales from this segment in next 2 years. Furthermore, our commitment to expansion remains steadfast with planned additions in forging and machining capacities progressing as per schedule. We will be adding 11,000 tons of machining capacities in current fiscal year, an increase of approximately 20% and expect ramp up of production on these facilities during this year.

I am pleased to report that in line with our commitment to creating shareholder value, the board of directors has recommended a final dividend of Rs. 4 per equity share on the face value of Rs. 2 which roughly translates into 15% payout ratio.

Over the medium term, we are confident in our 15% to 20% growth projection, this is driven by rising utilization of our existing units, ongoing capacity expansion and acquiring new customers globally and domestically. Our price pass through mechanism ensures stability in margin profile, reinforcing our growth trajectory. We have built strong foundations of a business that focuses on complex and safety critical components, heavy forged and high precision machined components and we shall continue to focus on leveraging our capabilities and strengths to increase the business, attract new sectoral mix.

To conclude, our engineering capabilities coupled with machining capabilities and advanced technologies that we deploy as part of our manufacturing operations, positions us to capitalize on the opportunities presented by the growing market globally.

Now I would like to handover the call to Mr. Pankaj Goyal for Financial Performance during the quarter.

**Pankaj Goyal:**

Good morning, everyone. We are pleased to report the financial performance for Q4 and FY24.

Starting with the FY24 performance:

We would like to highlight here that in FY23 the company recognized government grant in relation to refund of eligible Net SGST incentives pertaining to earlier years sales amounting Rs. 23.75 Cr. Adjusting for the same in FY23 period, the figures for the current financial will be; Revenue stood at Rs. 1,358 crores, growth of 16% on a YoY basis. EBITDA stood at 388 crores, growth of 22% on a YoY basis. EBITDA margin stood at 28.5%, growth of ~150 basis points on a YoY basis. Profit after tax for the quarter stood at Rs. 243 crores, growth of 27% on a YoY basis.

On the front of Q4 FY24 performance; Revenue stood at 343 crores, growth of 14% on a YoY basis. EBITDA stood at 97 crores, growth of 13% on YoY basis. EBITDA margin was stable at 28.3%. Profit after tax for the quarter stood at 66 crores, growth of 30% on a YoY basis.

On the balance sheet side, return on equity after adjusting for FDR and post-tax interest therein was 20.6%. ROCE after adjusting for FDRs and interest thereon, capital advances and CWIP was 26.9%.

On the cash flow side, we would like to draw your attention to disclosures in the cash flow statement. In the financial results, in the computation of cash flow from operations, due to oversight, changes in non-current financial assets (which actually was investment in FDRs) has been included. Rectifying this, cash flow from operations after tax will be Rs. 189 crores instead of Rs. 29 crores as they are into the reserves. So as of the 31<sup>st</sup>, March, we are a net cash company and we would like to reiterate that we are supported by a robust balance sheet and we are well positioned to see growth opportunities, optimize our returns profile through strategic capital deployment.

That is all from our end. We now leave the floor open for questions and answers. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nishit Jalan from Axis Capital.

**Nishit Jalan:** My first question is, I have seen that you have disclosed three more new orders. I am assuming this is for this quarter. So cumulatively now, how do you see ramp up of new orders in FY25? What kind of growth would come purely from new orders? And how do you see the end user industries in both India and in the overseas markets in both your two key segments, commercial vehicle and tractors?

**Ashish Garg:** I'll start with the sectors first and then we will come to the new orders. So, looking into the farm equipment sector and as well as the CV sector, we are aware that both the sectors are slightly down. Farm equipment is not performing for the past 12-14 months now. But looking into the opportunity now post elections, we are looking at a CAGR growth of almost 8.5% from FY24 to FY29. And there is still a potential to add more customers for us. So, we are still working on new customers addition in farm equipment side as well as on the CV side that we have added in the last couple of years. So, for us, market share is definitely expected to grow in both these

sectors on the domestic side. Even on the export side, we are working on new customers as well as new projects which we have taken over in the last 3 years for which ramp up is expected in current financial year and next financial year.

And when it comes to the industrial business, the business is increasing for us because of our 14,000 tons press line which started almost 12 months back where we started forging parts up to 250 kg. That has given us an opportunity to enter into industrial mix range of businesses. So, we are able to do heavy wind profile parts as well as heavy axle parts which are in a range of 200-220 kg.

On the new order wins, we have received some crankshaft orders from PV sector in the domestic market as well as on the brake flanges as well as on the E Axle programs which are going to start from this financial year. So, on the PV side, we are quite bullish. Already we expect around 5% to 6% revenues to come in this year from PV and this will further grow to 7.5%-8% going forward in next year. So, the ramp up on these orders for the crankshaft already, the testing has been completed. We are just waiting for the new lines to set up and we are expecting ramp up to start from the month of June. Whereas on the export side, on the E Axle program, we are expecting the ramp up to start from last quarter. So that's on the PV side. Hope I am able to answer you, Nishit?

**Nishit Jalan:**

Ashish, wanted to understand good to get the long-term growth expectations. Just wanted to understand how are you looking at FY25-26 from an industry perspective? Because multiple OEMs are giving a different, varied kind of a guidance. For example, on commercial vehicle side, Tata Motors is slightly cautious, while Ashok Leyland seems to be bullish. So just wanted to understand, how are you seeing FY25 in terms of end customers? And one more thing which I wanted to check was that on order side there are multiple new orders that you have won. Cumulatively, what is the quantum of orders which will translate into revenues in FY25 or FY26? Whatever data you can share over here will be very helpful.

**Ashish Garg:**

So definitely on the CV side, yes, we are getting a mixed review but we are expecting a low single digit growth even in the CV space. And there was some correction in CV's and yes Tata Motors, they have given a conservative view but as of now we are seeing a single digit growth even in the CV space. On the farm equipment side, as the industry is down for the last 12-14 months now, we are in fact expecting 8% to 10% growth in this financial year. And in terms of when we have discussed on the market share, at the same time, we are expecting increase in our market share as we have added new clients base on this. So last year if you see the new order book stands at Rs. 600 crores out of which Rs. 250 crores we have executed in last year from the new order. And now as of now if you see, it is again to the tune of Rs. 650 crores if we exclude that Rs. 250 crores that we have executed in the last year. So, order books as well it's increasing for us and we are working on new and new projects.



**Nishit Jalan:** Ashish, on CAPEX side, how should we look at because while on machining side you're operating at high capacity but on the forging side I think you have enough capacity for the next 2 years. So, are we looking at further capacity expansion on the forging side also?

**Ashish Garg:** Yes, we are looking at because on the PV side we are bringing in 3000 tons and 6000 tons press line largely to cater to the PV growth that we are seeing. The 6000 tons press line is expected, it has already been received in our plant. It is expected to start at the beginning of third quarter of this financial year. On the machining side, we are adding 11,000 tons of capacity. So, the capacity will increase from 51,000 tons to 62,000 tons and 50% of that capacity will probably come in beginning of second quarter. So, we are already operating at 87%-90% utilization levels on our machining capacities. So as soon as the new capacities are in place we will be starting to ramp up. So, there is a delay by 2 months because of the Red Sea crisis. We were expecting these capacities to be in place in the month of March. But now we are expecting it to start from the month of June onwards and we are already waiting to do the PPAP on these new lines.

**Moderator:** The next question is from the line of Jinesh Gandhi from Ambit Capital.

**Jinesh Gandhi:** With respect to industrial segments, we have seen a very good evolution in FY24 with share going up to 12%. So, what were the drivers of such a sharp increase in industrial segment in FY24? And particularly if I take a step forward, how do you see this 12% evolving over FY25-26? I believe a couple of large orders are getting into serial production in the FY25, so if you can talk about that.

**Ashish Garg:** Jinesh, at the moment we are classifying our industrial sector as an off-highway sector separately. But many companies, if you see, are kind of classifying it together. So currently the share of industrial as well as off highway sector, put together around 25% which has grown from 20%. Going forward we are seeing this to grow to 30% which will include new businesses coming from heavy, large axle products which will go for material handling solutions and as well as used in military axle programs. And also, we are looking at an increase in this business from wind sector which has the wind gearboxes. So, these are the two areas where we are largely seeing our business growing. And also, the 19-liter set of business where we will be supplying crankshafts for the 19 liter application which is on the higher side and will be used for marine application.

**Jinesh Gandhi:** When is that starting?

**Ashish Garg:** It will be starting from third quarter.

**Jinesh Gandhi:** And second question, we used to share the crankshaft contribution to the revenues. Fourth quarter we haven't shared. So how much would be the contribution from crankshaft in fourth quarter or a full year FY24?

**Ashish Garg:** So Jinesh it was 48% for the entire year.



**Jinesh Gandhi:** And lastly, when we look at our business mix, how it is evolving, clearly industrial side growing definitely seem to be more value-added business? But PV usually experience for the players have been at a relatively lower margin business as compared to CVs, off-highway vehicles, etc. Is that different in our case, given the **[precision]** we are doing? How has been your experience on that side?

**Ashish Garg:** So Jinesh, on the PV side, it depends on what type of products we are offering because the type of products actually defines the gross margin on the product. So, if we are supplying the simple as forged product, then definitely the gross margin on the business is less and asset turns are more. But if we are supplying a full machined component, then it is totally different. So for us, when we are supplying the crankshaft program in a PV sector or a machine E Axle program that we are doing, our realization and gross margin is upwards of 70%, which shows there is a very high contribution of forging as well as machining in the product, which will kind of help us in improving our margins going forward because the value added content is very high. But whereas the as forged program is concerned on the export side, on the brake flanges where we are supplying as forged with little machining, the contribution is less. So, it will be close to 40%-45% on that program. But we can expect decent margins and also, we can expect a higher asset turn on that program. So, it clearly depends on what type of product we are doing within PV as a category.

**Moderator:** The next question is from the line of Abhishek Jain from Alfaccurate.

**Abhishek Jain:** In the Farm equipment segment, how much share of business from the Mahindra & Mahindra and how do you see business growth ahead?

**Ashish Garg:** So, on the farm equipment side, currently we have almost 38%-40% market share. And for us we are supplying to Swaraj brand and Mahindra. So, Mahindra & Mahindra, we have just added in the last year and ramp up is expected to start in this year. So, Mahindra is a new client for us and tractor as a brand. But on a Swaraj brand, we are very old suppliers to them.

**Abhishek Jain:** So how much incremental [share] can you see in FY25 because of new business linked from the Mahindra & Mahindra?

**Ashish Garg:** On the products and segments which we are catering, we are expecting around 20% to 25% share in that.

**Abhishek Jain:** Basically, if I see cash in the books, that is around Rs. 400 crores. So, what sort of the inorganic opportunity are you looking to boost your top line? Now the top line is at ~Rs. 1,500 crores. Most probably would like to acquire some companies and in the same area, if you can throw some more light on that part.

**Ashish Garg:** As of now, we are looking at certain opportunities where there is synergic fit where we can get some business within our current company, and we can also improve the margin with that



particular company. So, we are open for looking at certain businesses on the machining space and within India. So as of now we are looking at opportunities but we have not narrowed down.

**Abhishek Jain:** And how much cash in books now?

**Pankaj Goyal:** We have cash of Rs. 277 crores.

**Abhishek Jain:** And how much CAPEX is expected in FY25?

**Ashish Garg:** Rs. 250 crores of CAPEX is planned in this year. But overall outflow will be around Rs. 200 crores as balance is already paid by the way of advances.

**Moderator:** The next question is from the line of Sahil Rohit Sanghvi from Monarch Network Capital Limited.

**Sahil Sanghvi:** My first question is regarding the machining capacity; you want to set in J&K. For which you have set up a subsidiary. So, any kind of progress on that, timeline on that will be helpful?

**Ashish Garg:** Sahil, we are in a process of acquiring land for this new subsidiary. And we need to have land which has been granted CLU because then only we can go ahead with the CAPEX. So probably we will have more clarity in the next quarter. But I can throw some light on this acquisition and on this new subsidiary. We will be planning around Rs. 200 crores of CAPEX, including land and building in this facility and will be largely cater to domestic sector and majorly in the machining space where forging will be supplied from our own existing facilities. And there are certain government incentives which will definitely help us increase our market share in both CV as well as farm business.

**Sahil Sanghvi:** At this stage, would you be able to quantify, is it a proportion or a percent of the CAPEX that you're putting up over there? The incentives I am asking.

**Ashish Garg:** So, this CAPEX will probably be Rs. 200 crores CAPEX which will come in two phases. First of all, we need to have eligibility from the government, probably which will take another two to three quarters. Once we have the eligibility, we will be going ahead. So, this CAPEX will largely come in next year where we expect to complete our building and plant within this financial year. But in terms of incentives, I think we will wait for another couple of months to give more clarity on it.

**Sahil Sanghvi:** And my last question is, like you said, that you're starting this year with a new order book of Rs. 650 crores. This will be all be executed in FY25 itself or will be split?

**Ashish Garg:** There are certain projects which we have recently acquired which will go in a development phase. There are certain orders which will come in a ramp up phase. So, the total new order above stands at this level. But the execution will happen in the next 18 to 24 months.



- Moderator:** The next question is from the line of Abhishek Jain from Alfaccurate.
- Abhishek Jain:** In the export, what is your mix of sales across various segments?
- Ashish Garg:** So, on the export side, it is approximately 40%-45% into CV and balance 50%-55% in industrial sector.
- Abhishek Jain:** And this quarter despite...
- Ashish Garg:** New business that we have picked on the export side which will probably add going forward.
- Abhishek Jain:** And for the next 2 years what kind of the growth you are looking in the exports side and how much would be the mix in terms of the Europe versus North America? North America your presence is very low but opportunity size is very high. So, if you can throw some light over there.
- Ashish Garg:** 60% of the new businesses that we have in hand are from exports today which are from Europe as well as from North American market. The PV orders that we have are from North American market. So, it's a mix from US as well as from European market.
- Abhishek Jain:** What kind of the revenue are you looking for the next 2 years in the export side?
- Ashish Garg:** The exports currently, which are at 20% will definitely touch to a level of 28%-30% going forward in next 2 financial years.
- Abhishek Jain:** And despite lower tonnage your revenue and EBITDA moved up quarter-on-quarter basis. So, what are the key drivers?
- Ashish Garg:** If you look at the last 4 year or 5-year horizon starting from FY21, if I talk about it, in terms the realization per kg has improved from almost Rs. 165/ kg to almost Rs. 245/kg. Whereas steel prices have gone up by only Rs. 20. So which means there is an incremental realization increase of Rs. 60/kg which has come up in the last 4 years. And if we talk from last 1 year perspective, there is an increase by almost Rs. 12 to 13/kg in terms of realization per kg because of the new businesses which currently company is doing. Because of the higher machining margin and because of the more contribution towards machining and some of the new businesses that we have in pipeline. The gross margin on those businesses are even higher because of the machining content and company is largely working on complete machining businesses.
- Moderator:** The next question is from the line of Suresh Jain from NB Investments.
- Suresh Jain:** To start with, I have a very basic question. First that is our forging capacity is 1,24,000 whereas the machining capacity is only 51,000. So how we are saying that we have reached 84% the machining done on whatever the products that we make. Can you just clarify this?



**Ashish Garg:** Yes, basically these capacities are calculated on the basis of the product weight. And when we talk about the machining weight, actually when we are machining with more and more processes, component weight goes down. Basically, there are 20 operations. A forged component which is weighing 30 kg will reduce to 20 kg or even 18 kg. So that is the reason. The machining capacity that we talk about is basis of the finished product weight which is forged which is 30%-35% more than that. That is the reason you are seeing the difference.

**Suresh Jain:** You said for the new orders that you are getting, the gross margins are on the higher side because the machining is also included, correct?

**Ashish Garg:** Yes. See, even within machining, what happens, on a farm equipment side, the component is not even BS-III compliant. Whereas on auto side the product is BS-VI compliant. And when we talk about exports, tolerances are even tighter. So, it also depends within machining, the realizations can range between Rs. 220 to Rs. 400 a kg as well. So, it will be very difficult to say that on a machining mix that we are already at 87%. But within machining also, the new businesses that we are doing are far more complicated and in terms of machining, the tolerances are even tighter.

**Suresh Jain:** My question was, is it possible for us to request the customers to give us the machining part also?

**Ashish Garg:** Yes, we are giving the machining part only. We are giving them a machine component only.

**Suresh Jain:** I know, but can we insist the customers to give us these machining operations orders also when they are placing the order.

**Ashish Garg:** So, when they are placing the order, they are placing the order for a complete machined product. So, forging and machining is done for them.

**Suresh Jain:** So now we have achieved a 28% EBITDA margin during the current year. And if you see over the last few years, it has been hovering from 25% or so. So, my question to you is, is there any more scope to increase these margins in the coming years?

**Ashish Garg:** Going forward as the realization levels will improve because we tend to add Rs. 4 to 5 per kg in terms of realization every year. And if the realization margins will improve going forward, this will definitely improve. But at the same time company is also working at adding forging volumes. If the forging mix will improve then probably, we can say that these margins will remain stable. So, it depends on what type of businesses are ramping up. If the machining business are ramping up first, then contribution will increase. But if it is a mix of forging and machining business, then probably it will remain at same level. So, at the moment, giving a guidance on that will be difficult in terms of improving the margin. But on the gross margin side, we are expecting that the gross margin should improve.

**Suresh Jain:** But it will be hovering something around 27% to 28% is what we can take it?



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**Ashish Garg:** 28% yes.

**Suresh Jain:** My last question is regarding the export. Generally forging companies we have seen in India, many of them exports, their proportion in the sales is on the higher side than what Happy Forging has. Any particular reason why we had not focused on export in the earlier years?

**Ashish Garg:** Not really because you are getting good growth within the domestic sector as well. And today for our product with a second large manufacturer of fully machined crankshaft and in India we have migrated from BS-III to BS-VI application. So, in terms of learning process in the last 5 years, we have kind of learned a lot in terms of the migration that has happened in the Indian market and with domestic OEMs. And today we are also exporting it to Japan. And going forward, the know how that company has gained in the last couple of years is probably helping us to cater to these type of products globally as well. So, we are in a very different sector and going forward, we expect our export business to increase because of the learning curve.

**Moderator:** Ladies and gentlemen as there are no further questions, I now hand the conference over to the Mr. Ashish Garg for closing comments. Over to you sir.

**Ashish Garg:** Thank you. So, looking ahead we remain optimistic about sustaining our policies momentum and driving further growth and profitability. We are confident that improvements in our underlying business sectors, coupled with our strategic initiatives and operational excellence will pave the way for continued success and value creation for all its stakeholders. With this I would like to thank everyone for joining the call. I hope we have been able to address all your queries. For any further questions kindly get in touch with me or Strategic Growth Advisors, our Investor Relation Advisors. Thank you so much.

**Moderator:** Thank you. On behalf of Happy Forgings Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.