MONARCH NETWORTH CAPITAL

Company Update

Happy Forgings I BUY I TP: Rs1350 I Upside: 18%

Large new order security; upgrade to BUY

We increase TP to Rs1,350 (previously Rs1,065) and move to BUY rating on Happy Forgings Ltd. (HFL). 3QFY26 was a resilient performance despite ongoing weakness in global CV and off-highway markets. Margins surprised positively, supported by a rich product mix, higher machining throughput and soft raw material costs. Domestic CV and farm demand remained robust along with support from new orders in PV and industrials, while export demand continues to be impacted by tariff-led uncertainty and customer destocking. We believe HFL remains uniquely positioned due to its large order bookings (Rs8bn over 3years) in CV, PV, industrial and heavyweight forgings, which will further amplify once the export demand improves. We have increased our earnings to account for the new orders, in turn leading to upgrade in TP and rating. Re-iterate BUY.

- **Stable growth with volume uptick:** HFL delivered revenue of Rs3.9bn (+10% YoY), supported by a strong 13.8% YoY volume growth, while realizations corrected 3% yoy, lower than market correction in steel prices, aided by improving mix. Domestic business continued to drive growth, offsetting weakness in exports, which remain soft due to tariff-driven demand disruption and inventory correction in key overseas markets. A major drag on the revenue was the 12% degrowth in US CV volumes.
- **Cost decline and Value addition improves margins:** During 3QFY26, HFL reported 30.8% EBITDA margins, +213bps yoy (highest ever); driven mainly by low RM prices and high value addition (machining and industrials) in product mix. The machining content remains high at 88% in 9MFY26 vs 88% in 9MFY25. Effectively, HFL reported PAT at Rs789mn; +22% yoy.
- **Order addition (new customer, new product) at its peak:** Despite sluggishness in global CV/off-highway cycles, HFL continues to benefit from diversification into PV and industrials. Further, continuous order wins in the PV segment, brake flanges, and e-axle components, both domestically and in export markets, should lift PV contribution to 8-10% of revenues in two years. Industrial (wind, power & data-center applications) remains a strong structural driver, with new orders slated for scale-up from FY27. Domestic CV and farm demand remain supportive, while export weakness is expected to persist for couple of quarters, due to tariff-driven destocking. The new heavy weight forging adds further diversification into industries like marine, defense, mining, nuclear, etc. and expands growth prospects with superior return ratios meant largely for exports. HFL has also added a tier 1 client on the domestic CV side along with few more orders from exports. We have increased our FY27/ FY28E earnings by 13%/ 26% to account for the new order wins (including heavy weight forging), leading to the increase in TP. Remain positive on HFL.
- **Valuation and risks:** We forecast a Revenue/EBITDA/PAT CAGR of 17%/20%/16% over FY25-28E. We value HFL at 32x Dec'27 earnings to arrive at TP of Rs1,350 (previously Rs1065 – increased mainly on increase in earnings and valuation roll forward) and move to BUY rating. Risks: Elongated down-cycle in export markets, delay in new order execution.

Rs mn	3QFY26	3QFY25	YoY(%)	2QFY26	QoQ(%)
Net Revenue	3,913	3,543	10.4	3,774	3.7
Raw Material Cost	1,609	1,489	8.0	1,498	7.4
Employee Cost	344	328	4.7	337	2.0
Other Expense	756	711	6.4	781	-3.1
EBITDA	1,204	1,015	18.7	1,158	4.0
EBITDA margin (%)	***30.8%***	***28.6%***		***30.7%***	
Depreciation	224	191	17.4	216	4.0
Interest	25	21	14.8	19	30.3
Other Income	82	66	23.3	63	30.6
PBT	1,037	868	19.4	986	5.1
Taxes paid	247	223	11.0	252	-1.7
Tax(%)	23.9%	25.7%		25.5%	
PAT	789	645	22.3	734	7.5

Source: Company, MNCL Research – consolidated numbers

Target Price	1350
Last Close	1151
Upside	18%

Key Data	
Bloomberg Code	HAPPYFOR:IN
Curr Shares O/S (mn)	94.3
Diluted Shares O/S(mn)	94.3
Mkt Cap (Rsbn/USDbn)	108.6/1.2
52 Wk H / L (Rs)	1,190/716
Daily Vol. (3M Avg.)	4.375k

Price Performance (%)	1M	6M	1Yr
HAPPYFOR IN	5.7	18.6	20
NIFTY	0.6	5.5	10.9

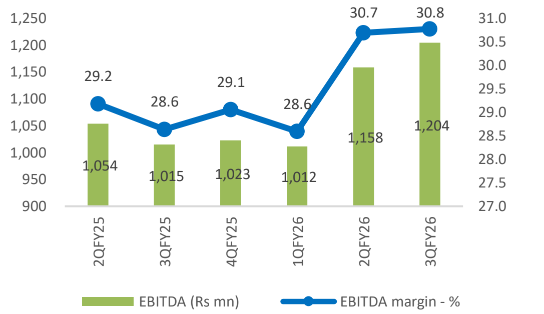
Source: Bloomberg, MNCL Research

Shareholding pattern (%)

	Dec-25	Sep-25	Jun-25	Mar-25
Promoter	78.50	78.52	78.54	78.57
FII/FPIs	1.84	2.03	2.17	2.19
DIIs	16.73	17.02	16.98	17.07
Others	2.94	2.45	2.31	2.18

Source: BSE

Quarterly EBITDA Margin – All time high at ~31% due to fall in RM prices and increasing exposure to PV and industrials



Source: Company, MNCL Research

Earning Revision

(Rs bn)	FY26E			FY27E		
	New	Old	*Chg(%)*	New	Old	*Chg(%)*
Sales	15.17	15.17	*0.0%*	18.53	17.44	*6.3%*
EBITDA	4.54	4.39	*3.4%*	5.64	5.06	*11.5%*
PAT	2.88	2.72	*5.9%*	3.31	2.94	*12.7%*

Source: MNCL Research Estimates

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Y/E Mar (Rs mn)	Revenue	*YoY (%)*	EBITDA	EBITDA (%)	Adj PAT	*YoY (%)*	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY23	11,965	*39.1*	3,409	28.5	2,087	*46.7*	23.3	21.1	19.5	NA	NA
FY24	13,582	*13.5*	3,875	28.5	2,430	*16.4*	25.8	15.1	17.0	34.9	21.9
FY25	14,089	*3.7*	4,067	28.9	2,674	*10.1*	28.4	14.5	14.2	28.3	18.8
FY26E	15,169	*7.7*	4,538	29.9	2,881	*7.7*	30.6	13.7	13.4	37.6	24.4
FY27E	18,535	*22.2*	5,640	30.4	3,314	*15.0*	35.2	13.9	13.4	32.7	19.9
FY28E	22,636	*22.1*	6,965	30.8	4,205	*26.9*	44.6	15.4	14.9	25.8	16.0

Source: Company, MNCL Research Estimates

Conference Call Key Takeaways

Industry:

1. Export demand indicates early signs of recovery. CV and tractor manufacturers are now signaling a low single digit growth in the US and stable momentum in Europe. There is still some high inventory in the US CV market which will need some time to de-stock. Posting this we can expect some new order bookings.
2. US tariffs are directionally positive step and should improve demand visibility in a year. It is still not clear about the exact duties. The auto components fall under section 232 and therefore high set of tariffs.
3. Tractor domestic: Sustainable agriculture benefits due to good kharif sowing and rainfall have resulted in strong demand.
4. Industrial: Wind, Railway, Oil & gas, data centers and power are driving strong growth.
5. PV: HFL has strong visibility of new orders in this segment.

Operations:

1. RM cost (alloy steel - chrome moly grades and some stainless steel) soften during this period which supported the gross margins along with new product offtake happening at higher prices. Steel prices are a pass through with lag of 1 month for domestic markets and 1 quarter lag for export market. Scrap prices are not passed through. Forex is partial pass through, and some are a long-term contract. Long-term contracts are hedged.
2. Direct exports remained subdued due to weak demand and tariff related uncertainty.
3. Railways components - Pistons pins for locomotives. Industrials - Crankshafts for heavy gensets and wind pinions for windmills.
4. Heavy weight forgings - Signed Rs1.8bn of orders for large crankshafts. Real marketing will start in Jun-July'26 when the equipment will be delivered at the plant. Meaningful utilization will happen in FY29.
5. Capacity at year end: Forgings - 150kt; Machining - 80kt. After adding heavy forgings capacity in FY28, revised capacity will be 180kt and machining capacity will be 90kt.
6. 55% of the exposure to CV and tractor have grown by at least 22% in value terms and much higher on volume term.
   Industrial: volume growth of 2% yoy.
   OHV: de-grew in domestic and exports markets due to one large customer.
   CV exports: 10-12% degrowth mainly from the US
   Tractor exports is a very small business
   PV: 37% growth in domestic and export market.
7. 10,000-tonne forging press machine - Industrial and CV business will be catered here as the 8000-tonne press line will reach optimum utilization this year.

New Projects:

1. New order visibility of Rs8bn, especially industrials and heavy weight forgings will drive growth in next 2-3years. This will be at very strong margins, some at better than current pricing. 66% of these new orders will be from exports. 80% of this new business will be delivered in 2years.
2. Solar CPP will result in Rs250-300mn annual reduction in power cost. Solar CPP should reach optimum peak load by Jun'26.
3. Exports to majorly improve starting 2HFY27 which is driven by 3 programs:
4. Industrial gensets - Visibility is there for the complete CY26.
5. EV: Started ramp up in Dec which is an indirect export to North America.
6. PV exports: Visibility exists to build stock which will start from June/ July'26.
7. New orders of Rs8bn: Split - 24% PV/ 27% CV/ 44% industrials/ 4% from farm equipment.

Financials:

1. Margin guidance: 29-31% depending on product mix, exports, RM cost and machining content.
2. No impact of the new labor codes as the company is already aligned with the new codes.
3. Capex: 9MFY26: Rs3bn; FY26: Rs4.5bn; FY27: Rs4.8bn including the solar CPP.

Valuation – Upgrade to BUY

Why HFL deserves to trade at premium valuations:

1. Superior set of financials: The company delivers industry-leading EBITDA margins, robust PAT margins, and strong return ratios, setting it apart from peers in the sector.
2. HFL has long standing relations with an esteemed set of OEMs in the CV, farm equipment and off-highway, which ensures revenue security.
3. With its diversification into non-automotive industry (especially industrial and PV segment) and improved offtake of exports, the cyclicity is expected to reduce over the longer term. HFL will face much lower downturns as compared to its CV-focused large forgings peers.
4. Further, with a large order book coming from existing and new customers across end user industry and from high margin heavy weight forgings, there is visibility of strong growth for next 3years. The new order visibility has led to increase in our FY27/ FY28E earnings.

The downcycle in export-oriented CV and farm equipment has moderated growth, but domestic demand remains resilient. We expect export weakness to persist for couple of quarters, with a gradual recovery, thereafter, led by new program in PV and industrials. Therefore, we value HFL at 32x Dec’27 PE ratio(unchanged), resulting in a target price of Rs 1,350/share (Rs1065/sh previously). At the current market price of Rs 1,151, the stock is trading at a 33x/ 26x FY27E/ FY28E PE ratio.

Exhibit 1: PE Valuation

Valuation	Dec'27
PE Ratio	
EPS (Rs)	42.3
P/E (x)	32.0
Fair Value/share (Rs)	**1350**
CMP	1,151
Upside	**18%**

Source: MNCL Research Estimates

Quarterly Financials & Key Performance Indicators

Exhibit 2: Quarterly Financials

Y/E March (Rs Mn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	Q3FY26
Net Sales	3,433	3,415	3,611	3,543	3,520	3,538	3,774	3,913
Raw Materials	1,494	1,486	1,486	1,489	1,455	1,489	1,498	1,609
Employee Costs	295	290	307	328	323	321	337	344
Other Expenditure	673	663	764	711	719	717	781	756
EBITDA	**971**	**976**	**1,054**	**1,015**	**1,023**	**1,012**	**1,158**	**1,204**
EBITDA Margin %	**28.3%**	**28.6%**	**29.2%**	**28.6%**	**29.1%**	**28.6%**	**30.7%**	**30.8%**
Depreciation	160	180	197	191	203	206	216	224
Interest	9	14	16	21	25	23	19	25
Other Income	72	76	83	66	100	104	63	82
PBT	875	858	924	868	896	886	986	1037
Tax	217	220	259	223	219	230	252	247
Tax rate (%)	**24.8%**	**25.7%**	**28.0%**	**25.7%**	**24.5%**	**25.9%**	**25.5%**	**23.9%**
PAT	658	638	666	645	676	657	734	789
Growth (yoy - %)								
Revenue	13.5	3.5	5.3	3.6	2.5	3.6	4.5	10.4
EBITDA	13.1	-3.8	12.4	6.6	5.3	3.6	9.9	18.6
PAT	29.8	-0.4	20.5	11.5	2.8	3	10.3	22.3
Margin (%)								
EBITDA	28.3	28.6	29.2	28.6	29.1	28.6	30.7	30.8
PAT	19.2	18.7	18.4	18.2	19.2	18.6	19.5	20.2

Source: Company, MNCL Research – consolidated numbers

Financials

Exhibit 3: Income Statement

Y/E March (Rs Mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenues	**8,600**	**11,965**	**13,582**	**14,089**	**15,169**	**18,535**	**22,636**
Materials cost	3,884	5,511	5,966	5,917	6,219	7,692	9,281
% of revenues	*45.2*	*46.1*	*43.9*	*42*	*41.0%*	*41.5%*	*41.0%*
Employee cost	687	878	1,145	1,248	1,348	1,672	2,023
% of revenues	*8*	*7.3*	*8.4*	*8.9*	*8.9%*	*9.0%*	*8.9%*
Others	1,721	2,168	2,596	2,857	3,064	3,531	4,368
% of revenues	*20*	*18.1*	*19.1*	*20.3*	*20.2%*	*20.4%*	*20.4%*
EBITDA	**2,309**	**3,409**	**3,875**	**4,067**	**4,538**	**5,640**	**6,965**
EBITDA margin (%)	*26.8*	*28.5*	*28.5*	*28.9*	*29.9%*	*30.4%*	*30.8%*
Depreciation & Amortisation	377	542	647	771	879	1,193	1,299
EBIT	**1,931**	**2,868**	**3,228**	**3,296**	**3,659**	**4,447**	**5,666**
Interest expenses	72	125	118	75	114	156	174
Other income	61	57	134	375	297	128	115
Share of net profit in Joint Venture	0	0	-	-	-	-	-
Exceptional Items	-	-	-	-	-	-	-
PBT	**1,920**	**2,800**	**3,244**	**3,596**	**3,842**	**4,419**	**5,606**
Taxes	498	713	814	921	960	1,105	1,402
Effective tax rate (%)	*26%*	*25%*	*25%*	*26%*	*25%*	*25%*	*25%*
Reported PAT	**1,423**	**2,087**	**2,430**	**2,674**	**2,881**	**3,314**	**4,205**
Adjusted PAT	**1,423**	**2,087**	**2,430**	**2,674**	**2,881**	**3,314**	**4,205**

Exhibit 4: Key Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratio (%)							
Revenue	47	39.1	13.5	3.7	7.7%	22.2%	22.1%
EBITDA	45.4	47.7	13.7	4.9	11.6%	24.3%	23.5%
Adjusted PAT	64.6	46.7	16.4	10.1	7.7%	15.0%	26.9%
Margin Ratios (%)							
Gross	54.8	53.9	56.1	58	59.0%	58.5%	59.0%
EBITDA	26.8	28.5	28.5	28.9	29.9%	30.4%	30.8%
Adjusted PAT	16.5	17.4	17.9	19	19.0%	17.9%	18.6%
Return Ratios (%)							
ROE	18.1	21.1	15.1	14.5	13.7	13.9	15.4
ROCE	16.2	19.5	17	14.2	13.4	13.4	14.9
ROIC	15.9	19.1	17	13.7	12.8	13.1	14.7
Turnover Ratios (days)							
Gross block turnover ratio (x)	1.6	1.7	1.5	1.3	1	1	1
Debtors	94	94	96	111	110	110	110
Inventory	173	112	137	143	143	145	145
Creditors	42	32	34	28	35	35	35
Cash conversion cycle	226	175	199	226	220	220	220
Solvency Ratio (x)							
Net debt-equity	0.3	0.2	0	0	0.1	0.2	0.1
Debt-equity	0.3	0.2	0.1	0.1	0.1	0.2	0.1
Interest coverage ratio	27	23	27.4	43.8	32.1	28.4	32.6
Gross debt/EBITDA	1	0.6	0.4	0.6	0.5	0.7	0.4
Current Ratio	1.7	1.9	3.1	2.8	2.4	1.8	2.6
Per share Ratios (Rs)							
Adjusted EPS	15.9	23.3	25.8	28.4	30.6	35.2	44.6
BVPS	88	110.4	171.2	196.3	223.8	252.9	290.5
CEPS	20.1	29.4	32.7	36.6	39.9	47.8	58.4
DPS	-	-	4.1	3	6.1	7.0	8.9
Dividend payout %	-	-	16%	11%	20%	20%	20%
Valuation (x)*							
P/E (adjusted)	NA	NA	34.9	28.3	37.6	32.7	25.8
P/BV	NA	NA	5.3	4.1	5.1	4.6	4.0
EV/EBITDA	NA	NA	21.9	18.8	24.4	19.9	16.0
Dividend yield %	NA	NA	0.5	0.4	0.5	0.6	0.8

Source: MNCL Research Estimates – consolidated numbers

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Sources of Funds							
Equity Share Capital	179	179	188	188	188	188	188
Reserves & surplus	7,697	9,704	15,937	18,307	20,747	23,144	25,890
Shareholders' fund	**7,876**	**9,883**	**16,125**	**18,495**	**20,935**	**23,332**	**26,078**
Total Debt (incl. pref shares if its thr)	2,404	2,185	1,430	2,280	2,280	2,880	2,080
Def tax liab. (net)	229	230	316	393	393	393	393
Total Liabilities	**10,509**	**12,299**	**17,871**	**21,169**	**23,609**	**26,605**	**28,552**
Gross Block	5,839	8,569	9,858	12,200	15,131	21,131	23,131
Less: Acc. Depreciation	(1,293)	(1,800)	(2,433)	(3,204)	(4,106)	(5,302)	(6,763)
Net Block	**4,546**	**6,770**	**7,425**	**8,996**	**11,025**	**15,829**	**16,368**
Capital WIP	2,123	748	1,219	1,164	2,233	233	233
Intangible Assets	16	15	60	145	129	116	106
Net Fixed Assets	**6,684**	**7,532**	**8,704**	**10,305**	**13,387**	**16,177**	**16,706**
Investment in Joint Venture	4	-	-	-	-	-	-
Other non current assets	354	830	2,738	2,661	2,661	2,661	2,661
Inventories	1,840	1,696	2,242	2,324	2,513	2,945	3,421
Sundry debtors	2,220	3,081	3,569	4,265	4,571	5,256	6,106
Cash & Cash Equivalents	15	3	1,175	1,366	382	372	578
Investments	-	-	-	796	796	-	-
Loans & Advances	2	3	2	3	3	3	3
Other current assets	179	117	430	432	432	432	432
Total Current Asset	**4,256**	**4,900**	**7,418**	**9,186**	**8,697**	**9,008**	**10,540**
Trade payables	442	477	555	454	607	711	826
Other current Liab.	321	448	388	481	481	481	481
Provisions	27	38	45	49	49	49	49
Net Current Assets	**3,466**	**3,937**	**6,429**	**8,203**	**7,561**	**7,767**	**9,184**
Total Assets	**10,509**	**12,299**	**17,871**	**21,169**	**23,609**	**26,605**	**28,552**

Source: MNCL Research Estimates – consolidated numbers

Exhibit 6: Cash Flow

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Cash flow from operations	**803**	**2,095**	**1,890**	**2,923**	**3,267**	**3,077**	**3,848**
Net Capex	-1,908	-1,746	-1,941	-2,711	-4,500	-4,800	-2,000
Cash flow from investing activities	**-1,657**	**-1,725**	**-4,693**	**-3,202**	**-4,203**	**-3,876**	**-1,885**
Cash flow from financing	**825**	**-370**	**2,809**	**402**	**-397**	**967**	**-1,837**
Net change in cash	**-29**	**0**	**6**	**123**	**-1,332**	**169**	**126**

Source: MNCL Research Estimates – consolidated numbers

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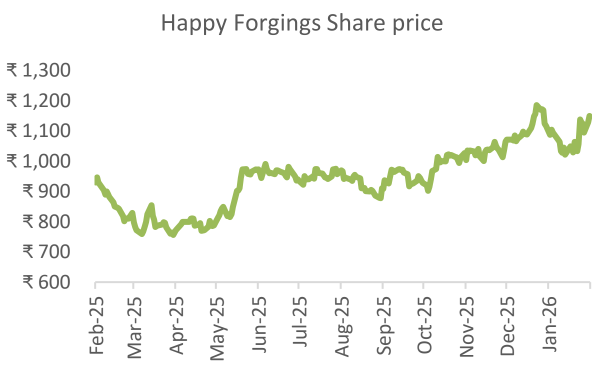

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