Harsha Engineers International Limited

March 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	431.32 (Reduced from 483.87)	CARE AA-; Stable/ CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Harsha Engineers International Limited (HEIL) continue to derive strength from its established operations in bearing cage business with state-of-the-art manufacturing facilities ensuring high quality standards and its status as the largest manufacturer of bearing cages in India. The ratings are further strengthened by HEIL's geographically diversified manufacturing facilities and its long-standing relationship with reputed clientele in the bearing industry. Additionally, ratings draw comfort from its growing scale of operations with healthy profitability margins, strong financial risk profile marked by comfortable capital structure and debt coverage indicators, and strong liquidity.

However, the long-term rating is constrained due to its concentrated clientele dominated by three large players of the global bearing industry resulting in HEIL's limited bargaining power and susceptibility of profitability to volatility associated with raw material prices and foreign exchange rate fluctuation. However, HEIL generally passes on the increased raw material costs to its customers with a lag. Inherent cyclicality due to HEIL's linkages with the end-user automobile industry and subdued performance of its European subsidiary due to recessionary scenario in European region also constrain the rating. Moreover, HEIL's long-term rating is further constrained by its presence in the competitive and fragmented solar engineering, procurement, and construction (EPC) business which has low entry barriers and long-pending receivables associated with its solar power EPC business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-backed increase in its scale of operations through greater client and product profile diversification with total operating income (TOI) of over ₹2,000 crore with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin to over 18% and ROCE of over 20% on a sustained basis.
- Significantly improved performance of its overseas subsidiaries aiding its consolidated performance on a sustained basis.

Negative factors

- Volume-based decline in its scale of operations marked by TOI of less than ₹1,200 crore on a sustained basis.
- Reducing PBILDT margin to less than 12% on a sustained basis.
- Elongating operating cycle to beyond 150 days affecting its liquidity.
- Significantly deteriorating capital structure and debt coverage indicators.

Analytical approach: Consolidated, as HEIL has extended stand-by letter of credit for bank facilities raised in its overseas subsidiaries which are also engaged in similar lines of business. Companies considered in HEIL's consolidation are listed under Annexure-6.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that HEIL shall continue to benefit from its established operations in bearing cage business and its comfortable financial risk profile. The outlook is also supported by steady cash accruals and strong liquidity.

Detailed description of key rating drivers:

Key strengths

One of the largest domestic bearing cage manufacturers with state-of-the-art manufacturing facilities

HEIL has experience of over three decades in the bearing cage industry. Since its inception in 1986, HEIL is the largest manufacturer of precision bearing cages in the Indian organised sector in terms of capacity. As articulated by company management, it is among world's leading manufacturers of precision bearing cages with a market share of ~6.5% in the organised segment of global brass, steel, polyamide bearing cages in terms of revenue, enjoying a dominant market share of over 50% in the domestic market.

Geographically diversified manufacturing facilities and advance in-house tooling design setup

HEIL has its principal production facilities at Changodar and Moraiya, near Ahmedabad in Gujarat. It also has a production facility through its subsidiaries in Changshu, China, and Ghimbav Brasov in Romania. Having four geographically diversified

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

manufacturing facilities enables it to cater to requirements of existing multinational clientele in those geographies more efficiently. It supplies its products to over 25 countries across five continents. HEIL is a technology-driven company with a focus on research and development, allowing it to develop products suited to its customers' requirements. It has the expertise to design and develop advance tooling in-house which enables it to manufacture complex products. HEIL has a capability to produce bearing cages with diameters between 20 mm and 2,000 mm. Presently, it has over 7,000 active SKUs. HEIL is a Total Productive Maintenance (TPM) certified company, issued by the Japan Equipment Maintenance Association. Since 2009, HEIL has also undertaken six-sigma initiatives to achieve higher efficiency and reduce operational costs.

Long-standing relationship with the world's three largest bearing manufacturers, though concentrated clientele
HEIL supplies bearing cages to leading global bearing manufacturers such as Timken, Schaeffler (including FAG) and SKF at their worldwide locations (including India). It has long-term sales contracts with some of its customers. However, given the dominant position of these bearing companies, HEIL's bargaining power with them is relatively low. HEIL has long-standing relationship with these customers; however, it remains exposes to customer concentration risk. Sales to these three customers constituted ~60-75% of HEIL's standalone net sales in the last few years.

Growing scale of operations with healthy profitability margins
HEIL operates two business segments, mainly bearing cages manufacturing and end-to-end solar power EPC. In the last few years, solar EPC share stood low at ~5-10%. On a consolidated basis, HEIL's TOI largely remained stable at ₹1,396 crore in FY24 (FY23: ₹1,381 crore. Revenue from bearing cages segment declined by ~6% in FY24 despite volume growth of ~7% in domestic market largely due to decline in average realisations on account of softening of commodity prices and demand slowdown from Europe and China. Revenue from sale of large-sized bearing cages was lower on y-o-y on account of softness in demand from windmill segment and softening industrial demand in Europe. However, this was compensated by significant growth in revenue from solar EPC segment of ₹165 crore in FY24 (FY23: ₹65 crore). PBILDT margins moderated from 14.74% in FY23 to 12.43% in FY24 due to change in business mix and decline in revenue of Chinese and European overseas subsidiaries.
In 9MFY25, HEIL reported TOI of ₹1,035 crore (9MFY24: ₹1,012 crore) with PBILDT margins of 13.51% (9MFY24: 11.54%) backed by better product mix and improvement in performance of its Chinese subsidiary. CARE Ratings expects HEIL's TOI to remain at ~₹1,400-₹1,450 crore in FY25 with PBILDT margin of 13-14%. Going forward, HEIL's PBILDT margins are expected to improve to ~14-15% in the medium term with growth in scale of operations leading to better absorption of fixed overheads and improvement in performance of foreign subsidiaries.

Comfortable capital structure and debt coverage indicators
HEIL's financial risk profile is supported by healthy net worth of ~₹1,100 crore and comfortable gearing of 0.16x (gross debt basis) as on March 31, 2024 (0.18x as on March 31, 2023). In September 2022, HEIL came out with an Initial Public Offer (IPO) and raised ₹455 crore through fresh issue, out of which ₹270 crore was utilised for part repayment/pre-payment of loans thereby improving HEIL's overall debt profile. Total debt/ PBILDT improved from 2.09x as on March 31, 2022 to 1.02x as on March 31, 2024.
On a consolidated basis, HEIL is planning to undertake capex of ~₹355 crore in FY25-FY27 which shall be funded through term loans ~₹170 crore, surplus liquidity and remaining through internal accruals. In FY23, HEIL incorporated a wholly owned subsidiary, Harsha Engineers Advantek Limited (HEAL), which is setting-up a greenfield project with an investment outlay of ~₹250 crore which is expected to be funded through term loans ~₹170 crore owing to interest rate subsidy. Phase I of the project under HEAL is expected to be completed by March 2025 while balance is expected to fully commission by March 2027. Despite the debt funded capex plan, consolidated total debt/ PBILDT is expected to remain below 1.50x while overall gearing is expected to remain below 0.50x in the medium term.

Liquidity: Strong
Post infusion of equity through public issue of equity shares, HEIL's liquidity has improved significantly. Apart from equity infusion, the liquidity is also supported by steady cash accruals and positive cash flow from operations. HEIL's average utilisation of fund-based working capital limits remained low at ~26% for 12 months ended December 2024. Sizable unutilised limits provide sufficient cushion for any additional working capital requirements to support future growth in operations. HEIL also has healthy free cash and bank balance of ₹316 crore as on March 31, 2024 and ~₹240 crore as on December 31, 2024. HEIL's operating cycle stood high at 152 days in FY24, largely on the back of long-pending receivables related to its solar EPC business.

Key weaknesses
Recession-like scenario in European region impacting demand
HEIL's operations are diversified geographically, as it derives ~40-50% of its revenue from India and balance from overseas markets. European region and China contribute majority to consolidated sales of 35-40% and 10-15%, respectively. Present high

inflation and recessionary trend in Europe and America led to lower contribution from these economies in FY24 while Indian business grew steadily. CARE Ratings expects Indian revenue to grow at ~6-7% in FY25, while income from outside India is expected to decline by 4-5% in the year.
The performance of European subsidiary continued to be impacted by inflationary scenario in Europe. In 9MFY25, European subsidiary reported a TOI of ₹149 crore (9MFY24: ₹168 crore) and net loss of ₹13 crore (9MFY24: net loss of ₹10 crore). The management is exploring options to improve performance of European subsidiary.

Long pending receivables under solar EPC business
As HEIL (erstwhile Harsha Abakus Solar Private Limited) had executed a large solar power EPC project for NLC India Limited (100 MW) in FY18, its solar EPC business segment reported huge increase in its TOI to ₹449 crore (FY17: TOI of ₹102 crore). Although the project was successfully commissioned by it on May 05, 2018 (as articulated by the management), absence of power evacuation infrastructure (which was not under HEIL's scope) led to delay in the project commissioning by around two months. Hence, NLC blocked the balance payment. As on March 31, 2024, HEIL had ₹38.83 crore of debtors outstanding for over three years largely related to solar EPC business. As informed by the company management, HEIL expects to receive ~₹19-20 crore of the total outstanding receivables by H1FY26.

Competitive and fragmented solar power EPC business with low entry barriers
As EPC business does not require significant investment or gestation period, unlike manufacturing facilities, it entails high competition. These low entry barriers have resulted in numerous organised and unorganised players entering the solar EPC industry, leading to increased competition and pressure on profitability. However, HEIL has now decided to restrict itself to smaller-size ground-mounted projects with capacity up to 4-5 MW and solar rooftop projects, which is expected to restrict its working capital requirement.

Inherent cyclicality in its operations due to significant linkages of its prospects with that of automobile industry
HEIL's bearing cages have major application in the bearings manufactured for the automobile sector and hence its fortunes are susceptible to slowdown in the demand of inherently cyclical automobile industry. However, over the years, HEIL has gradually increased its exposure to industrial bearing and segments other than automobile in its sales mix to ~50% which is expected to mitigate this risk to some extent.

Risk associated with volatile raw material prices and foreign exchange rate fluctuations
The main raw materials used in the bearing cage manufacturing process are cold-rolled and cold-annealed steel strips and brass tubes, castings, strips, and scrap. All these raw materials are mostly procured from domestic sources. The company's profitability remains susceptible to high degree of volatility in the price of its key raw materials. However, HEIL has price-escalation clause in its sales contracts with its three key customers, mitigating risk of increase in raw material prices to some extent; however, it takes effect with some lag. On a standalone basis, HEIL's export sales accounts for ~40-50% of its total sales, qualifying it as a net exporting entity. Although HEIL hedges its foreign exchange exposure through currency options, forward cover, use of packing credit in foreign currency and in-built exchange rate fluctuation clause in some of contracts entered with its customers, it continues to remain susceptible to inherent foreign exchange fluctuation risk.

Environment, social, and governance (ESG) risks

Factors	Compliance and action adopted by company
Environmental	• HEIL monitors and manages multiple environmental aspects including waste management, energy consumption, water and wastewater management, emissions control and pollution prevention. • HEIL has a solar power plant, rooftop solar plants and a hybrid wind and solar power plant for captive use, meeting ~45-50% of its total power requirement through renewable energy currently. • HEIL has ISO 14001 Certified Environmental Management System.
Social	• HEIL prioritises employee well-being with a focus on comprehensive safety protocols, regular inspections, robust training programmes, incident reporting and emergency preparedness plans with a dedicated Occupational Health and Safety Management System Environment, Health, and Safety Committee. • HEIL's CSR efforts are mainly dedicated towards people with intellectual and development disabilities, education, health, environment and disaster response.
Governance	• HEIL has a diversified board with 50% consisting of independent directors. HEIL has a dedicated risk management committee, audit committee, stakeholder relationship committee among others. • HEIL also has in place a whistle blower policy and other policies in line with regulatory requirements.

Applicable criteria
Consolidation
Definition of Default

Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components & equipment

HEIL, formerly known as Harsha Abakus Solar Private Limited (HASPL), was initially incorporated in December 2010 to undertake solar EPC business through a joint venture (JV) between Harsha Engineers Limited (HEL, which housed the bearing cage manufacturing business since 1972) and Abakus Solar AG (of Germany) with initial equity participation in the ratio of 76% and 24% respectively. Post that, HEL gradually increased its stake in HASPL to 96.87%, which it later divested to HEL's promoters (Rajendra Shah and Harish Rangwala families), who increased their equity stake in HASPL to 99.99% by March 31, 2017. Post the scheme of corporate restructuring with an appointed date of April 01, 2020, the group has merged HEL (bearing cage manufacturing business) into HASPL, and subsequently renamed HASPL as HEIL. Consequently, HEIL houses both businesses, manufacturing bearing cages and solar EPC business.

Brief Financials – Consolidated (₹ crore)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total operating income	1,381	1,396	1,035
PBILDT	204	174	140
PAT	123	111	92
Overall gearing (times)	0.18	0.16	NA
Interest coverage (times)	12.86	16.11	19.12

A: Audited; UA: Unaudited; NA: Not available, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	244.50	CARE AA-; Stable/ CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	186.82	CARE AA-; Stable/ CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-BG/LC	LT/ ST	186.82	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Mar-24)	1)CARE AA-; Stable / CARE A1+ (28-Mar-23)	1)CARE A+; Stable / CARE A1+ (07-Mar-22)
2	Fund-based - LT/ ST-Cash Credit	LT/ ST	244.50	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (13-Mar-24)	1)CARE AA-; Stable / CARE A1+ (28-Mar-23)	1)CARE A+; Stable / CARE A1+ (07-Mar-22)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (28-Mar-23)	1)CARE A+; Stable (07-Mar-22)

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Harsha Precision Bearings Components (China) Co. Limited	Full	Wholly owned subsidiary
2	Harsha Engineers Europe SRL		
3	Harsha Engineers Advantek Limited		
4	Cleanmax Harsha Solar LLP	Proportionate	Joint venture

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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