



Forge Auto International Limited

Recommendation: **APPLY!**

- Established in 2008, the company has their registered office in Ludhiana, Punjab, India.
- Business Activity:** Forge Auto International Limited is an engineering company specializing in forging and machining components for various sectors like automotive, agriculture, and railways. They focus on delivering high-quality, precision-machined products to both domestic and international OEMs.
- Revenue Streams:**
- The company's revenue is primarily concentrated in the domestic market, accounting for 94.25% of total sales in FY 2023-24. However, they also export to countries like France, Germany, Poland, Brazil, Austria, Turkey, and the USA.
- Revenue is primarily driven by auto parts (51.74% in FY24), followed by tractor parts (27.37%) and hydraulic parts (3.96%).
- Clients:** Forge Auto serves both domestic and global OEMs, showcasing its ability to meet international quality standards.
- As of March 2024, the Company had 366 employees on it's payroll.

Objects of the Issue -

- Repayment in full or in part, of certain of the outstanding borrowings.
- Funding Working Capital requirements.
- General Corporate Purposes.

Promoters Name -

Parmod Gupta and Rajan Mittal.

Rationale for recommendation -

- ✓ Steady growth in Profit and return margins.
- ✓ Growing Industry
- ✓ Management possesses relevant experience and education.
- ✓ Only knowledgeable investors with a long-term horizon should consider investing in Forge Auto, given the competitive landscape with large players and other available investment opportunities.

IPO Details

Opening Date	September 26, 2024
Closing Date	September 30, 2024
Allotment Date	October 1, 2024
Listing Date	October 4, 2024
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price Per Share	₹102 to ₹108 per share
Issue Size	₹31.10 Cr
Fresh Issue	₹31.10 Cr
Offer for Sale	-
Application Amt	₹1,29,600 (1,200 shares)

Industry - Automobile Component Industry

P/E Average: 49.97

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	13,287.85	17,664.85	18,011.72
EBITDA	721.67	1,138.88	1,451.42
Net Profit	264.34	496.30	668.88
RoCE	26.98%	39.12%	28.70%
ROE	19.33%	29.89%	32.14%
P/E	26.73	14.25	10.58

Promoter Share Holding Pattern

Pre-Issue	Post Issue
100.00%	73.63%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	10.21	6.13
BVPS	25.88	47.54
P/E	10.58	17.63
P/BV	4.17	2.27
Mkt Cap (In Cr)	86.83	117.94

Lead Managers -

Hem Securities Limited

Registrar -

Bigshare Services Pvt Ltd



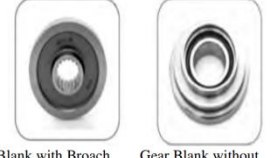




Business Overview -



Forge Auto International Limited began its journey in 2008 as a partnership firm with a vision to establish a strong presence in the forging sector.

Certifications: The company holds several quality and environmental certifications, including ISO 9001:2015, ISO 14001:2015, OHSAS 45001:2018, IATF 16949:2016, and ZED GOLD, emphasizing their commitment to quality and sustainability.

Capacity Utilisation: Forge Auto has steadily increased its capacity utilization over the past three fiscal years. In FY24, the forging section operated at 76.40% capacity, while the machining section reached 86.08%, demonstrating efficient utilization of resources and potential for further growth. They have one manufacturing facility.

Product Portfolio

Product	Usage	Description
 <p>Big Ring Small Ring</p>	Railway Parts	The suspension ring, a key part of railway bogies, connects the primary and secondary suspension systems. Mounted on the bogie frame, it supports the coach's weight and ensures passenger comfort by absorbing dynamic forces and vibrations.
 <p>Big Ball Stud Small ball stud Innenteil</p>	Railway Parts	Imagine a rubbery part that helps a train's wheels move smoothly. It's called a Big Ball Stud which is placed in the part of the train called a control arm. This control arm has two rubbery layers that connect the wheel's spinning part to the train's main body. These rubbery layers help the train's wheels move up and down, side to side, and even slightly forward and backward without being too stiff.
 <p>Gear Blank with Broach Broach Gear Blank without Broach</p>	Tractor Part	A gear blank is the raw form from which finished gears are machined. It serves as the foundation for precision gear manufacturing, influencing the final gear's performance.
 <p>Stub Axle Assembly Double steering arm</p>	Tractor Part	Essential in tractor steering systems, the stub axle assembly connects the front wheel to the steering system. Its design ensures stability, durability, and manoeuvrability. Double Steering Arm - Used in the front axle of tractor
 <p>Flange Yoke 325HS Short Fork 325HS</p>	Automotive Part	Imagine a car's engine as a powerhouse. It produces a force called torque that makes the wheels turn. To get this power from the engine to the wheels, there's a long, spinning rod called a drive shaft. The flange yoke is a special part that connects the drive shaft to the wheels. It's like a bridge that helps the power from the engine reach the wheels. Usage: Commercial vehicles, both light and heavy
 <p>Long York Break Drum</p>	Automobile parts	The long fork: is a special part that helps connect the drive shaft to the wheels. It's like a bridge that helps the power from the engine reach the wheels. The brake drum: is a part that helps the car slow down. It's like a circular plate with a rim that the brake shoes press against. When you press the brake pedal, the brake shoes press against the drum, slowing down the wheels.
	Striking tools	Sledge Hammer Head: This heavy-duty tool is used in construction and demolition tasks, providing optimal force.

	<p>Agricultural tools</p>	<p>Finger: In agricultural machines, fingers help handle and separate crops efficiently, designed for durability in tough conditions.</p>
	<p>5 th wheel couple assembly</p>	<p>Locking Bar, Wearing Ring & Lock Jaw: This component connects trailers to heavy commercial vehicles, ensuring secure and reliable coupling.</p>

Competition -

Landscape: Forge Auto operates in a highly competitive forging and machining sector, facing challenges from larger players with greater resources.

Porter's Five Forces:

- **Moderate threat of new entrants'** Moderate capital requirements and technical expertise create some barriers to entry, but the presence of larger players and potential new entrants poses a moderate threat which is countered by Forge Auto's focus on quality and niche expertise.
- **Moderate buyer and supplier bargaining power** OEM customers may have significant bargaining power due to their size and ability to switch suppliers. It requires strong relationships and diversification.
- **Low threat of substitutes:** Substitutes for forged and machined components are limited, especially for safety-critical applications which provides some insulation.
- **High competitive rivalry** necessitates differentiation through design, engineering, and customer-centricity.

Business Strategies -

1. **Expansion into New Markets and Products:** The company's strategy to expand its presence in the forging market includes increasing sales volume, diversifying its product range, and reaching new geographical areas. Their foray into manufacturing hydraulic components and other industrial goods in 2021 underscores this strategy.
2. **Capacity Expansion:** Forge Auto aims to increase its existing manufacturing capacity by an additional 15 lakh forging (6132 MT per annum) and/or machining components, further supporting their growth ambitions.
3. **Focus on Advanced Products:** Leveraging design and engineering capabilities to develop high-value-added and technology-driven components can lead to early-mover advantages and higher profit margins.

Risk Factors -

Forge Auto's top 10 customers contribute 85.16% (FY24) of its revenue, posing a significant risk if any of these relationships are disrupted.

Company heavily relies on a few suppliers for steel, their primary raw material, with the top 10 suppliers accounting for 78.95% of total purchases in FY24.

They have contingent liabilities amounting to Rs 29 Cr.

PEER ANALYSIS –

Particulars	Forge Auto International Limited			Balu Forge Industries Ltd		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	1.99%	2.81%	3.71%	10.13%	11.47%	16.43%
EBITDA Margin	5.43%	6.45%	8.06%	15.40%	18.40%	22.71%
RoCE	26.98%	39.12%	28.70%	26.49%	29.07%	22.03%
ROE	19.33%	29.89%	32.14%	18.82%	19.69%	16.94%
EPS (INR)	4.04	7.58	10.21	3.96	4.70	10.07
P/E	26.73	14.25	10.58	29.80	18.67	20.31

Particulars	MM Forging Limited			Happy Forging Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	7.88%	8.68%	8.52%	16.4%	17.4%	17.7%
EBITDA Margin	19.42%	19.35%	19.85%	27.4%	28.8%	29.2%
RoCE	16.57%	19.85%	18.92%	22.5%	27.4%	20.4%
ROE	10.92%	15.45%	11.75%	209.7%	180.0%	188.4%
EPS (INR)	18.85	26.50	27.97	15.90	23.32	26.45
P/E	23.16	15.83	15.63	-	-	33.64

Comparative Analysis with Peers:

- **Profitability:** Forge Auto's profitability margins have improved significantly but still lag behind its peers, especially Happy Forging Limited, which boasts consistently high margins.
- **Efficiency:** Forge Auto demonstrates strong ROCE, outperforming Balu Forge and MM Forging, but slightly behind Happy Forging.
- **Growth:** The company's EPS growth is healthy, but again, it is overshadowed by Happy Forging's impressive growth.
- **Valuation:** Forge Auto's low valuation ratios compared to its peers suggest potential undervaluation, offering an attractive investment opportunity if its growth trajectory continues.

Overall, Forge Auto is well-positioned in the competitive forging and machining industry, with a focus on quality, customer relationships, and operational efficiency. However, to maintain its competitive edge, it needs to enhance its profitability, further improve asset utilization, and strategically manage its debt levels. Additionally, continuous innovation and adaptation to technological advancements will be crucial for long-term success in this dynamic market.

Note: Peers are not comparable on apple-to-apple basis.

Industry Overview: Indian Automobile Component Industry

Robust Growth:

- The industry's turnover reached ₹5.6 lakh crore (US\$ 69.7 billion) in FY23, showcasing a significant 32.8% growth over FY22.
- Domestic OEM supplies constituted ~66% of turnover, followed by domestic aftermarket (~12%) and exports (~22.3%) in FY23.

Export Growth:

- Auto component exports grew by 5.2% to ₹1.61 lakh crore (US\$ 19.49 billion) in FY23. They are projected to reach US\$ 30 billion by 2026.
- Key export destinations include North America (32%), Europe (31%), and Asia (26%).

Aftermarket Growth:

- The aftermarket for auto components grew by 15% in FY23, reaching ₹85,333 crore (US\$ 10.33 billion), and is expected to hit US\$ 32 billion by 2026.

Production and Supply:

- **Domestic sales of automobiles in FY23:** Passenger vehicles - 38.9 lakhs, commercial vehicles - 9.6 lakhs, three-wheelers - 4.9 lakhs, two-wheelers - 158.6 lakhs.
- **Total automobile sales in FY24 (April-November):** 14.18 million units.

Advantage India:

- Robust demand driven by a growing working population and expanding middle class.
- Cost-effective manufacturing base with a skilled workforce.
- Supportive government policies like the FAME II scheme and PLI schemes.

Recent Trends & Strategies:

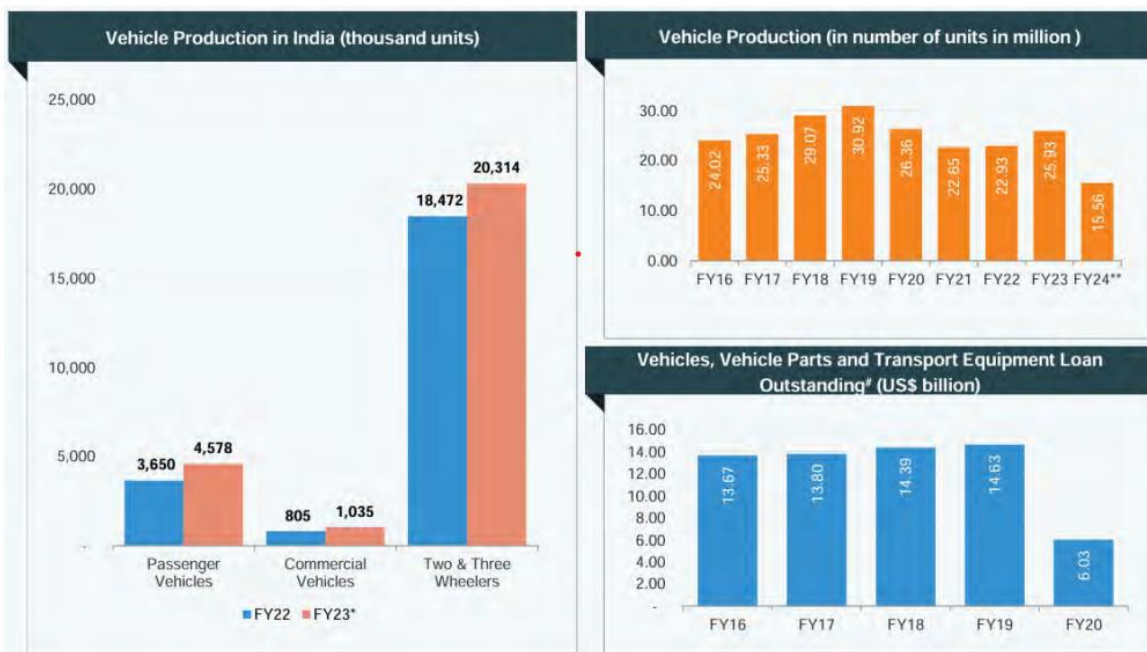
- India is emerging as a global auto component sourcing hub.
- Companies are investing in R&D and product development capabilities.
- The industry is witnessing capacity expansion and diversification into new segments.
- The EV market is projected to grow significantly, with 4 million units sold by 2025.

Government Initiatives:

- **NEMMP 2020 (National Electric Mobility Mission Plan):** Promotes faster adoption of EVs and their manufacturing in India.
- **FAME II Scheme:** Provides incentives for electric vehicles and charging infrastructure.
- **PLI (Production-Linked Incentive) Schemes:** Offers financial incentives to boost manufacturing and exports in various sectors, including auto components.

(Source: RHP)

Growth in the automobiles sector



Key Management -

Key Management Persons Name -	Rajan Mittal
Age	56
Designation	Promoter and Managing Director,
Experience	32 years of experience in the field of business development and financial management; previously a partner in the erstwhile partnership firm “Auto International” which has been converted into the current company since 2001
Qualification	bachelor’s degree in Science from Guru Nanak Dev University
Roles and Responsibility	Drives new investment and growth strategy besides managing day-to-day operations of the Company

Key Management Persons Name -	Parmod Gupta
Age	70
Designation and No. of years of experience	Promoter, Chairman & Whole-time Director
Experience	48 years of experience in running the forging business; previously a partner in the erstwhile partnership firm “Auto International” which has been converted into the current company since 2001
Qualification	Bachelor of Arts
Roles and Responsibilities	Oversees overall operation of the Company

Ansh Jain, 28, is an **Independent Director** with around **4 years of experience** as a **Company Secretary**. He has previously served as Company Secretary at Alchemist Capital Limited (August 1, 2017 – November 30, 2019). He is currently the Company Secretary of Eco Spin Yarns Private Limited (appointed September 1, 2023).

Bhupinder Preet Kaur, 32, is an **Independent Director** with around **7 years of experience in accounting and banking**. She holds a master’s degree in commerce from Punjab University, India, and has passed the Integrated Professional Competence Examination (IPCE) from ICAI in November 2011.

Navneet Kaur, 31, is an **Independent Director** with around **7 years of experience in corporate advisory and compliance**. She is a qualified Company Secretary and has worked at various companies, including Majestic Hotels Limited (August 17, 2023 – February 2, 2024). She is currently the Company Secretary of Fleming Laboratories Limited (appointed February 3, 2024).

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Revenue from Operations	13,287.85	17,664.85	18,011.72
Other Income	112.43	99.58	145.58
Total Income	12,016.76	12,149.57	14,214.66
Expenses			
Cost of Material Consumed	7,707.82	11,291.35	11,101.82
Changes in Inventories of finished goods	2.57	-1,075.80	-832.66
Changes in work-in-progress and stock-in-trade	132.07	326.72	-351.1
Employee Benefit Expenses	621.25	806.73	1,130.56
Finance Cost	621.25	806.73	1,130.56
Depreciation and Amortization Expenses	279.57	338.79	410.42
Other expenses	4,102.47	5,176.97	5,511.68
Total Expenses	13,025.84	17,071.46	17,228.08
EBITDA	721.67	1,138.88	1,451.42
EBITDA Margin	5.43%	6.45%	8.06%
Profit/(Loss) before tax	374.44	692.97	929.22
Tax Expense			
Current tax	66.42	164.63	233.35
Deferred Tax	43.68	32.04	26.99
Total Tax	110.10	196.67	260.34
Profit/(Loss) for the year	264.34	496.30	668.88
Net Profit Margin	1.99%	2.81%	3.71%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share capital - Partner's capital	76.25	76.25	87.58
Reserves and surplus	1,276.88	-	-
Total Equity	372.47	573.26	1,099.86
2. Non-current liabilities			
Long-term borrowings	454.38	489.05	1,435.86
Deferred Tax Liabilities (Net)	145.1	177.16	204.13
Other Long-term liabilities	-	-	363.4
Long-term provisions	39.96	56.58	76.86
Total Non-current liabilities	639.44	722.79	2,080.25
3. Current liabilities			
Short-term Borrowings	2,165.78	2,693.64	2,610.14
Trade Payables			
(i) Total outstanding dues of MSME	137.69	304.72	368.98
(ii) Total outstanding dues of creditors other than MSME	1,102.04	2,470.01	2,509.66
Other Current Liabilities	196.19	254.01	259.00
Short-term provisions	69.06	168.78	239.77
Total Current liabilities	3,670.76	5,891.16	5,987.55
Total Liabilities	4,310.20	6,613.95	8,067.80
Total Equity and Liabilities	5,677.93	8,274.29	10,148.68
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	2,277.80	2,568.87	3,090.65
Intangible assets	4.18	6.63	10.27
Capital Work-In-Progress	22.03	-	27.47
Non-current investments	7.00	18.8	183.5

Particulars	FY 22	FY 23	FY 24
Long term loans and advances	8.00	6.00	521.21
Other Non- current Assets	53.74	69.36	82.67
Total Non-Current assets	2,372.75	2,669.66	3,915.77
2. Current assets			
Inventories	1,079.33	2,119.26	3,554.02
Trade Receivables	2,082.65	3,190.20	2,380.58
Cash & Cash equivalents	2.72	3.45	52.4
Short-term loans and advances	139.81	285.58	231.89
Other Current Assets	0.67	6.14	14.02
Total Current assets	3,305.18	5,604.63	6,232.91
Total Assets	5,677.93	8,274.29	10,148.68

Cash Flow Statement			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	286.23	434.28	847.91
Net Cash Flow from Investing Activities	-354.49	-491.35	-1,076.60
Net Cash Flow from Financing Activities	68.14	57.79	277.63

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	4.04	7.58	10.21	EV/EBITDA	5.52	4.25	4.19
BV per share	-	-	25.88	Market Cap / Sales	0.89	0.67	0.65
Operating Ratios				P/E	26.73	14.25	10.58
EBITDA Margins	5.43%	6.45%	8.06%	Price to Book Value*	-	-	41.73
PAT Margins	1.99%	2.81%	3.71%	Solvency Ratios			
Inventory Days	29.65	43.79	72.02	Debt / Equity	1.92	1.92	1.94
Debtor days	57.21	65.92	48.24	Current Ratio	0.90	0.95	1.04
Creditor days	59.85	87.44	92.55	Quick Ratio	0.61	0.59	0.45
Return Ratios				Asset Turnover	2.34	2.13	1.77
RoCE	22.03%	33.57%	25.02%	Interest Coverage Ratio	1.94	2.75	2.91
RoE	19.33%	29.89%	32.14%				

Company was a Partnership firm until April 2023

Interpretation -

Profitability & Efficiency:

- **PAT Margins:** Improved from 1.99% (FY22) to 3.71% (FY24), indicating better cost management.
- **EBITDA Margins:** Increased steadily to 8.06% (FY24), showing efficient core operations.
- **Inventory Days:** Rose from 29.65 (FY22) to 72.02 (FY24), potentially due to slower demand or strategic inventory buildup.
- **Debtor Days:** Decreased from 65.92 (FY23) to 48.24 (FY24), reflecting faster collections.
- **Creditor Days:** Increased slightly to 92.55 (FY24), offering short-term liquidity but needing careful management.
- **Asset Turnover:** Declined to 1.77 (FY24), possibly due to new asset investments or product mix changes.

Returns:

ROCE: The RoCE shows strong performance, increasing from 22.03% to 33.57%, though it later dipped to 25.02%, indicating fluctuations in the company's efficiency in generating returns from capital employed over time.

ROE: Increased to 32.14% (FY24), reflecting growing profitability relative to equity.

Solvency & Liquidity:

- **Debt/Equity:** Increased to 1.04 (FY24), showing higher reliance on debt financing.
- **Current & Quick Ratio:** Indicates healthy liquidity, but the declining quick ratio needs monitoring.
- **Interest Coverage Ratio:** Improved to 2.91 (FY24), reflecting better ability to cover interest expenses.

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is Hem Securities Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Hem Securities Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Shubhshree Biofuels Energy Limited	16.56	119.00	Sep 16, 2024	233.40
2.	Vision Infra Equipment Solutions Limited	106.21	163.00	Sep 13, 2024	188.85
3.	My Mudra Fincorp Limited	33.26	110.00	Sep 12, 2024	108.00
4.	Namo eWaste Management Limited	51.20	85.00	Sep 11, 2024	149.20
5.	Aeron Composite Limited	56.10	125.00	Sep 04, 2024	135.15
6.	Sunlite Recycling Industries Limited	30.24	105.00	August 20, 2024	160.10
7.	Aprameya Engineering Limited	29.23	58.00	August 01, 2024	59.00
8.	Chetana Education Limited	45.90	85.00	July 31, 2024	90.30
9.	Ganesh Green Bharat Limited	125.23	190.00	July 12, 2024	401.95
10.	Aimtron Electronics Limited	87.02	161.00	June 06, 2024	436.85

The company has handled 60 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 27th September 2024.

As per the offer document, from the above-mentioned mandates all have opened at a premium on the listing day.

Recommendation -

Company has been in the industry since 2008 and has a good amount of experience in the industry.

The management overview of the company is good with the Promoters possessing relevant experience and education with diversity in the age group of the management as well bringing in different perspectives.

The P/E on a post-IPO basis is around 17.82 times which makes it fairly priced compared to its peers PE. Although Peers are not comparable on an apple-to-apple basis.

Forge Auto International Limited appears to be in good financial health, with steadily growing profitability and return ratios. The company has demonstrated its ability to navigate the challenges of the competitive forging and manufacturing industry. However, certain areas require attention, such as improving asset turnover, managing inventory levels, and monitoring debt levels.

The company's focus on expanding its product portfolio, enhancing its manufacturing capabilities, and strengthening its quality control processes aligns well with the industry's growth drivers and can contribute to its continued success.

Thus, for the above-stated reasons, knowledgeable investors can **APPLY** to this IPO. Forge Auto International Limited operates in a promising industry with significant growth potential. However, it faces stiff competition from larger, well-resourced players who benefit from economies of scale. This presents a challenge for a smaller company like Forge Auto. Therefore, an investment in Forge Auto is recommended only for those with a long-term investment horizon, who understand the inherent risks and potential rewards associated with investing in a smaller player within a competitive market

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