

Bharat Forge | BUY



Strong Defence/Aerospace orderbook to offset weakness in CVs

In 4QFY24, Bharat Forge (BHFC) reported standalone/consolidated revenue beat of 2% / 6% was led by strong ramp-up in defence segment. Standalone EBITDAM came-in at 28.3% (+390bps YoY), 100bps below JMFe owing to unfavourable mix. Consol. EBITDAM declined 260bps QoQ to 15.4% (+340bps YoY). Management highlighted that Class 8 demand remains sluggish in both NA and EU. Outlook for domestic CV segment is flattish. While the growth in Auto segment is expected to moderate, medium-term performance is expected to be led by execution of robust order book in Defence/Aerospace (INR 52bn order book for Defence). Cost-control initiatives and positive operating leverage are likely to support margins in the international operations. We increase our consol. earnings estimate by 2% for FY26E. Maintain BUY with a Mar'25 TP of INR 1,400 (30x forward earnings vs. 25x earlier). Inability to win/execute new defence orders remains a key risk.

- 4QFY24 – Revenue ahead; margin misses estimates:** BHFC's stand. net sales stood at INR 23.3bn (+17% YoY, +3% QoQ); 2% above JMFe driven by execution of defence export orders and PV exports. Total tonnage stood at c.66.6kt (+3% YoY, -1% QoQ). Realisation increased by +4% QoQ (+13% YoY). Reported stand. EBITDAM was 28.3% (+390bps YoY, -100bps QoQ), 100bps below JMFe. Consolidated revenue stood at INR 41.6bn (+15%YoY, +8%QoQ); c.6% above JMFe. EBITDAM stood at 15.4% (+340bps YoY, -260bps QoQ), 250bps below JMFe. Consol. EBITDA stood at INR 6.4bn (+47%YoY, -8% QoQ), 8% below JMFe. Consol. Adj. PAT stood at INR 2.3bn (+78% YoY; -11% QoQ).
- Domestic business outlook:** Domestic revenue increased 32%YoY (+3% QoQ) to INR 10.8bn. CV revenue decreased 15% YoY (-6% QoQ) to INR 2.4bn. CV demand is expected to be muted until general elections. Overall, the company expects CV industry to be flattish in FY25. PV revenue stood at INR 786mn (-4% YoY, +2% QoQ). YoY decline is owing to completion of an existing program. However, BHFC indicated that premiumization trend and new programs starting in next 2-3 qtrs are expected to drive growth. Domestic Industrial segment revenue increased 69% YoY (+6% QoQ) to INR c.7.6bn led by strong growth in Defence segment. Order pipeline remains strong led by higher capex spends. During FY24, BHFC has won new defence orders worth INR4.5bn and its defence orderbook stands at ~INR 52bn (domestic + exports; to be executed over next 3-4yrs). This is expected to drive strong growth in the medium-term. Further, the company expects to secure order for ATAG guns from Govt of India in the near-term.
- Export business outlook:** Exports revenue increased 6%YoY (+3% QoQ) to INR 12.5bn. CV segment revenue stood at INR 5.2bn (+4% YoY, flattish QoQ). Management indicated that North American Class 8 truck production is likely to remain flat with a moderately negative bias in CY24. Sustainable recovery in EU market also remains elusive. PV segment revenue increased 30% YoY (flattish QoQ) to INR 3.3bn owing to healthy demand from existing and new customers for existing and new products (mkt. share gain and enhanced geographical presence). Industrials revenue declined c.7% YoY (+10% QoQ). Industrial revenue ex. O&G segment was up 35% led by strong performance in Construction, Mining, Defence and Aerospace. BHFC indicated that Aerospace segment is on the cusp of rapid growth in the medium-term (aiming to double over next 2-3 years).

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,400
Upside/(Downside)	-0.4%
Previous Price Target	1,150
Change	21.7%

Key Data – BHFC IN

Current Market Price	INR1,405
Market cap (bn)	INR654.2/US\$7.8
Free Float	55%
Shares in issue (mn)	465.6
Diluted share (mn)	465.6
3-mon avg daily val (mn)	INR1,758.7/US\$21.1
52-week range	1,474/753
Sensex/Nifty	73,466/22,303
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	19.7	35.9	80.5
Relative*	21.7	19.9	51.8

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	1,04,611	1,29,103	1,56,821	1,81,579	2,01,467
Sales Growth (%)	65.1	23.4	21.5	15.8	11.0
EBITDA	20,159	17,675	25,579	33,552	38,270
EBITDA Margin (%)	19.3	13.7	16.3	18.5	19.0
Adjusted Net Profit	9,894	5,742	9,635	17,742	21,390
Diluted EPS (INR)	21.2	12.3	20.7	38.1	45.9
Diluted EPS Growth (%)	450.1	-42.0	67.8	84.2	20.6
ROIC (%)	11.9	6.7	9.8	15.6	17.5
ROE (%)	16.5	8.7	13.9	22.6	22.7
P/E (x)	66.1	113.9	67.9	36.9	30.6
P/B (x)	10.0	9.8	9.1	7.6	6.3
EV/EBITDA (x)	33.9	39.2	27.3	20.6	17.7
Dividend Yield (%)	0.2	0.5	0.6	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 08/May/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Overseas manufacturing operations:** During 4QFY24, overseas manufacturing subsidiaries revenue stood at INR 13.7bn (+13% YoY, +4% QoQ). EBITDA margin at EU operations improved 80bps QoQ to 2.9% led by positive operating leverage. EU operation is currently operating at c.75% utilization level and the management indicated that it expects EBITDA margins to consistently improve going ahead (touch double-digit exiting 4QFY25) and turn PBT positive led by cost reduction efforts, focus on value added business and higher capacity utilization. The company also indicated that US Aluminium forging plant is gradually ramping-up (50% utilisation level) and it is expected to turn profitable during 2HFY25.
- **Other highlights:** 1) BHFC has reduced standalone gross debt by INR 5.5bn during FY24 to INR 17.1bn. However, consolidated gross debt increased by INR 0.2bn to INR24.6bn. Standalone Debt to EBITDA ratio stands at 0.76. 2) Capex guidance for FY25 stands at c.10bn towards expansion of both India operations (INR 5bn) and overseas operations (INR 5bn towards US AL plant – phase 2 and EU plant maintenance).

Exhibit 1. BHFC (standalone) - financial performance

(INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	Q4FY24E	% A/E
Net Sales	23,286	19,973	16.6	22,634	2.9	22,747	2.4
RM	9,647	8,678	11.2	9,491	1.6	9,486	1.7
As a % of sales	41.4	43.5	-200bps	41.9	-50bps	41.7	-30bps
Employee Exp	1,504	1,357	10.8	1,510	-0.4	1,524	-1.3
As a % of sales	6.5	6.8	-30bps	6.7	-20bps	6.7	-20bps
Other Costs	5,543	5,058	9.6	5,002	10.8	5,073	9.3
As a % of sales	23.8	25.3	-150bps	22.1	170bps	22.3	150bps
Expenditure	16,694	15,093	10.6	16,002	4.3	16,082	3.8
EBITDA	6,592	4,879	35.1	6,632	-0.6	6,665	-1.1
EBITDA Margin	28.3	24.4	390bps	29.3	-100bps	29.3	-100bps
Other Income	382	391	-2.3	346	10.5	375	1.8
Interest	634	658	-3.6	809	-21.6	810	-21.8
Depreciation	1,079	1,051	2.7	1,124	-4.0	1,150	-6.2
PBT	5,261	3,562	47.7	5,044	4.3	5,080	3.6
Tax	1,231	708	73.7	1,266	-2.8	1,275	-3.5
Tax rate (%)	23.4	19.9	350bps	25.1	-170bps	25.1	-170bps
PAT (Adjusted)	4,030	2,854	41.2	3,778	6.7	3,805	5.9
PAT Margin	17.3	14.3	300bps	16.7	60bps	16.7	60bps
EPS	8.7	6.1	41.2	8.1	6.7	8.2	5.9

Source: Company, JM Financial

Exhibit 2. Standalone - segmental performance

(INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	Q4FY24E	% A/E
Total revenue	23,286	19,973	17	22,632	3	22,747	2
Domestic	10,798	8,170	32	10,498	3	10,661	1
CV	2,421	2,854	(15)	2,583	(6.3)	2,712	(11)
Industrial	7,591	4,499	69	7,145	6.2	7,117	7
PV	786	817	(4)	770	2.1	832	(5)
Exports	12,488	11,803	6	12,134	2.9	12,086	3
CV	5,264	5,046	4	5,245	0.4	5,140	2
Industrial	3,958	4,241	(7)	3,607	9.7	3,697	7
PV	3,266	2,516	30	3,282	(0.5)	3,249	1

Source: Company, JM Financial

Exhibit 3. Consolidated performance

(INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ
Net Sales	41,642	36,291	14.7	38,664	7.7
RM	19,566	17,512	11.7	17,803	9.9
As a % of sales	47.0	48.3	-130bps	46.0	90bps
Employee Exp	4,749	4,201	13.0	4,498	5.6
As a % of sales	11.4	11.6	-20bps	11.6	-20bps
Other Costs	10,894	10,193	6.9	9,384	16.1
As a % of sales	26.2	28.1	-190bps	24.3	190bps
Expenditure	35,209	31,906	10.4	31,686	11.1
EBITDA	6,433	4,385	46.7	6,979	-7.8
EBITDA Margin	15.4	12.1	340bps	18.0	-260bps
PAT (Adjusted)	2,271	1,277	77.8	2,544	-10.7
PAT Margin	5.5	3.5	190bps	6.6	-110bps
EPS	4.9	2.7	77.8	5.5	-10.7

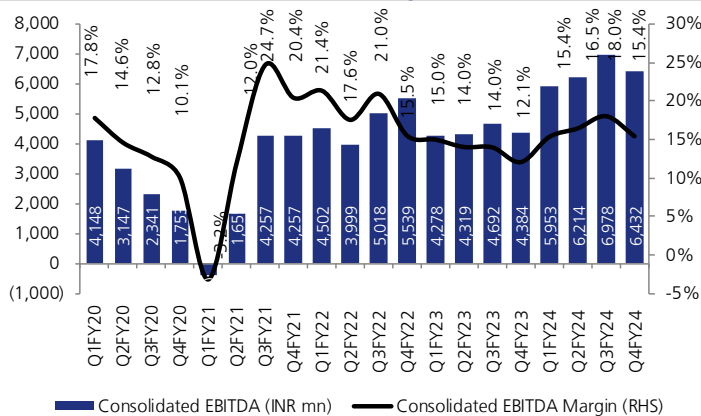
Source: Company, JM Financial

Exhibit 4. BHFC - overseas manufacturing subsidiaries' performance

(INR mn)	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ
Net Sales	13,672	12,099	13.0	13,099	4.4
EBITDA	(9)	-489	NA	218	NA
EBITDA Margin	(0.1)	-4.0	400bps	1.7	-170bps
PBT	(1,295)	(1,341)	NA	(1,100)	NA

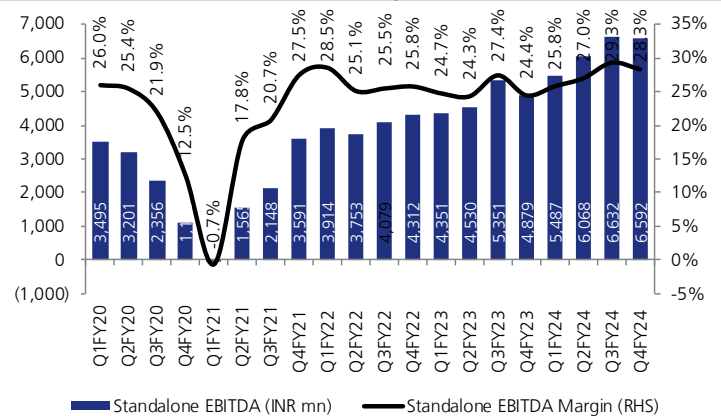
Source: Company, JM Financial

Exhibit 5. Consolidated EBITDA and margin trend



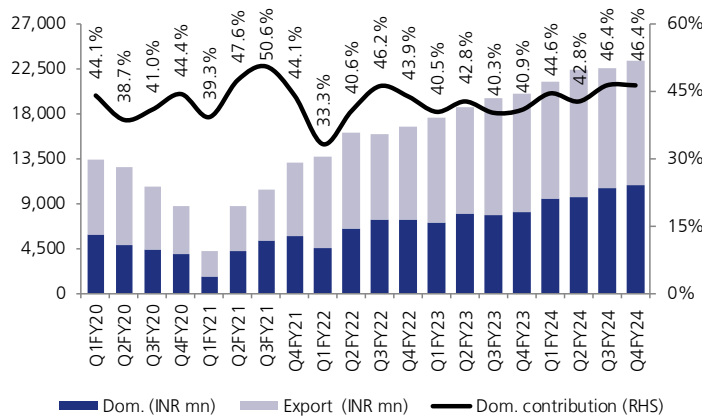
Source: Company, JM Financial

Exhibit 6. Standalone EBITDA and margin trend



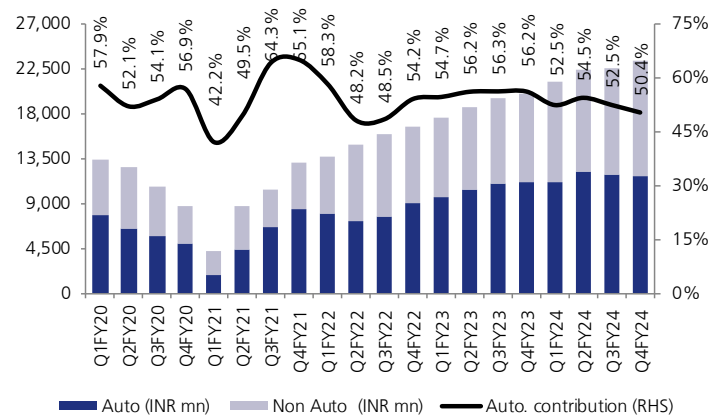
Source: Company, JM Financial

Exhibit 7. Standalone - geographic revenue split



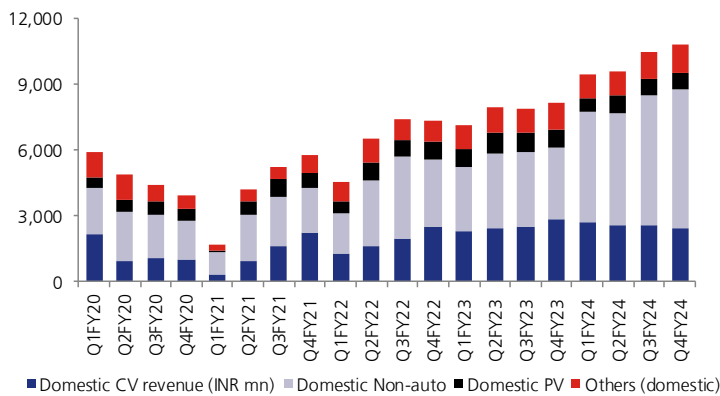
Source: Company, JM Financial

Exhibit 8. Standalone – product revenue split



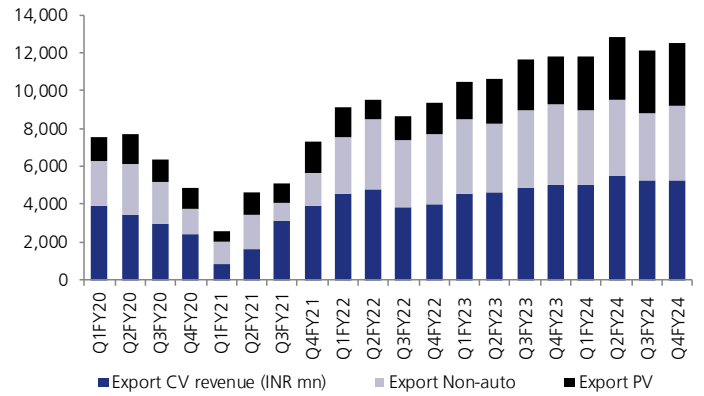
Source: Company, JM Financial

Exhibit 9. Standalone domestic – revenue split



Source: Company, JM Financial

Exhibit 10. Standalone exports – revenue split



Source: Company, JM Financial

Exhibit 11. BHFC - change in assumptions (consolidated)

BHFC	New assumption		Old assumption		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue (INR mn)	181,579	201,467	172,789	189,050	5.1%	6.6%
EBITDA (INR mn)	33,552	38,270	31,956	36,185	5.0%	5.8%
EBITDA margin (%)	18.5%	19.0%	18.5%	19.1%	0bps	-10bps
PAT (INR mn)	17,742	21,390	17,819	21,011	-0.4%	1.8%
EPS (INR)	38.1	45.9	38.3	45.1	-0.4%	1.8%

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	1,04,611	1,29,103	1,56,821	1,81,579	2,01,467	
Sales Growth	65.1%	23.4%	21.5%	15.8%	11.0%	
Total Revenue	1,04,611	1,29,103	1,56,821	1,81,579	2,01,467	
Cost of Goods Sold/Op. Exp	42,160	59,614	73,792	83,708	92,675	
Personnel Cost	14,647	15,631	18,600	21,291	23,520	
Other Expenses	27,645	36,183	38,849	43,028	47,003	
EBITDA	20,159	17,675	25,579	33,552	38,270	
EBITDA Margin	19.3%	13.7%	16.3%	18.5%	19.0%	
EBITDA Growth	133.9%	-12.3%	44.7%	31.2%	14.1%	
Deprn. & Amort.	7,303	7,356	8,482	8,638	9,049	
EBIT	12,856	10,319	17,097	24,914	29,221	
Other Income	1,959	1,729	2,274	2,549	2,888	
Finance Cost	1,604	2,986	4,912	3,849	3,599	
PBT before Excep. & Forex	13,212	9,062	14,460	23,614	28,510	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	13,212	9,062	14,460	23,614	28,510	
Taxes	3,035	3,186	5,288	6,022	7,270	
Extraordinary Inc./Loss(-)	924	-458	-123	0	0	
Assoc. Profit/Min. Int.(-)	283	134	-463	-150	-150	
Reported Net Profit	10,818	5,285	9,511	17,742	21,390	
Adjusted Net Profit	9,894	5,742	9,635	17,742	21,390	
Net Margin	9.5%	4.4%	6.1%	9.8%	10.6%	
Diluted Share Cap. (mn)	465.6	465.6	465.6	465.6	465.6	
Diluted EPS (INR)	21.2	12.3	20.7	38.1	45.9	
Diluted EPS Growth	450.1%	-42.0%	67.8%	84.2%	20.6%	
Total Dividend + Tax	1,630	3,259	4,191	3,725	3,725	
Dividend Per Share (INR)	3.5	7.0	9.0	8.0	8.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	13,212	9,062	14,460	23,614	28,510	
Deprn. & Amort.	7,303	7,356	8,482	8,638	9,049	
Net Interest Exp. / Inc. (-)	1,604	2,986	4,912	3,849	3,599	
Inc (-) / Dec in WCcap.	-18,520	-815	-6,270	-6,578	-4,534	
Others	885	-792	-70	150	150	
Taxes Paid	-3,035	-3,186	-5,288	-6,022	-7,270	
Operating Cash Flow	1,449	14,611	16,226	23,651	29,503	
Capex	-10,750	-16,029	-12,867	-8,720	-9,156	
Free Cash Flow	-9,301	-1,418	3,358	14,932	20,347	
Inc (-) / Dec in Investments	30	349	7,198	-2,500	-2,500	
Others	-1,604	-2,986	-4,912	-3,849	-3,599	
Investing Cash Flow	-12,324	-18,666	-10,581	-15,068	-15,254	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,630	-3,259	-4,191	-3,725	-3,725	
Inc / Dec (-) in Loans	11,166	13,416	6,343	-5,000	-5,000	
Others	2,640	-1,737	-1,293	-117	-111	
Financing Cash Flow	12,176	8,420	859	-8,842	-8,836	
Inc / Dec (-) in Cash	1,302	4,365	6,504	-259	5,412	
Opening Cash Balance	4,729	6,030	10,395	16,899	16,641	
Closing Cash Balance	6,030	10,395	16,899	16,641	22,053	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	65,707	67,055	71,702	85,603	1,03,156	
Share Capital	931	931	931	931	931	
Reserves & Surplus	64,775	66,124	70,771	84,671	1,02,225	
Preference Share Capital	0	0	0	0	0	
Minority Interest	561	361	-49	-49	-49	
Total Loans	59,716	73,132	79,475	74,475	69,475	
Def. Tax Liab. / Assets (-)	1,718	658	39	39	39	
Total - Equity & Liab.	1,27,702	1,41,206	1,51,167	1,60,068	1,72,622	
Net Fixed Assets	59,947	68,621	73,006	73,088	73,194	
Gross Fixed Assets	1,15,718	1,33,409	1,43,479	1,54,392	1,63,111	
Intangible Assets	1,197	3,771	3,668	3,668	3,668	
Less: Deprn. & Amort.	68,215	75,571	84,053	92,691	1,01,740	
Capital WIP	11,248	7,012	9,912	7,720	8,156	
Investments	26,038	25,688	18,490	20,990	23,490	
Current Assets	68,933	88,038	1,00,344	1,14,239	1,29,121	
Inventories	27,105	31,263	32,161	39,798	44,157	
Sundry Debtors	21,736	30,988	31,769	37,311	41,397	
Cash & Bank Balances	6,030	10,395	16,899	16,641	22,053	
Loans & Advances	5,114	3,066	2,653	2,786	2,925	
Other Current Assets	8,949	12,327	16,861	17,704	18,589	
Current Liab. & Prov.	27,216	41,140	40,672	48,249	53,184	
Current Liabilities	24,539	38,827	37,365	44,611	49,183	
Provisions & Others	2,677	2,313	3,307	3,638	4,001	
Net Current Assets	41,717	46,897	59,671	65,991	75,937	
Total - Assets	1,27,702	1,41,206	1,51,167	1,60,068	1,72,622	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin		9.5%	4.4%	6.1%	9.8%	10.6%
Asset Turnover (x)		0.9	1.0	1.1	1.2	1.2
Leverage Factor (x)		1.9	2.0	2.1	2.0	1.8
RoE		16.5%	8.7%	13.9%	22.6%	22.7%

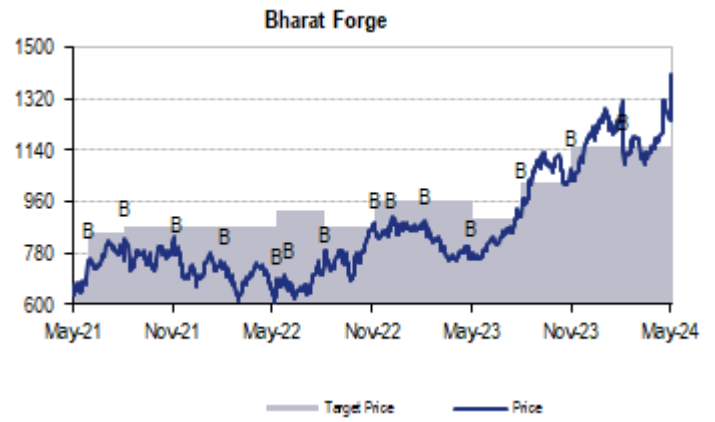
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)		141.1	144.0	154.0	183.8	221.5
ROIC		11.9%	6.7%	9.8%	15.6%	17.5%
ROE		16.5%	8.7%	13.9%	22.6%	22.7%
Net Debt/Equity (x)		0.4	0.6	0.6	0.4	0.2
P/E (x)		66.1	113.9	67.9	36.9	30.6
P/B (x)		10.0	9.8	9.1	7.6	6.3
EV/EBITDA (x)		33.9	39.2	27.3	20.6	17.7
EV/Sales (x)		6.5	5.4	4.5	3.8	3.4
Debtor days		76	88	74	75	75
Inventory days		95	88	75	80	80
Creditor days		106	127	104	110	110

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
13-Apr-20	Buy	330	
29-Jun-20	Buy	345	4.5
12-Aug-20	Buy	475	37.7
9-Sep-20	Buy	530	11.6
11-Nov-20	Buy	540	1.9
12-Feb-21	Buy	680	25.9
6-Jun-21	Buy	850	25.0
12-Aug-21	Buy	875	2.9
14-Nov-21	Buy	875	0.0
10-Feb-22	Buy	875	0.0
16-May-22	Buy	925	5.7
9-Jun-22	Buy	925	0.0
11-Aug-22	Buy	870	-5.9
14-Nov-22	Buy	960	10.3
11-Dec-22	Buy	960	0.0
14-Feb-23	Buy	960	0.0
7-May-23	Buy	900	-6.3
9-Aug-23	Buy	1,025	13.9
6-Nov-23	Buy	1,150	12.2
12-Feb-24	Buy	1,150	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

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