

Europe drags; defence stumbles

13 February 2025

Bharat Forge's (BHFC IN) consolidated revenue contracted 10.1%/5.8% YoY/QoQ to INR 34.7bn and standalone revenue by 7.4%/6.7% YoY/QoQ to INR 20.9 bn. This was led by a dip in domestic industrial revenue by 13%/20% YoY/QoQ. And exports PV & CV revenue was down 5%/26% YoY respectively, owing to demand challenges in Europe. Defence revenues came in at INR 3.4bn in Q3. Defence orders are lumpy in some quarters and in that context, Q3 was weak. Led by weak demand in Europe, EBITDA margin at European operations contracted by 280bps QoQ to 1.1%, while US operations continued to steadily improve with EBITDA margin at -3% (-11.3% in Q2FY25). The management expects FY26E consolidated revenues to remain flattish given that the weakness in Europe will be partially offset by expected recovery in US Class 8. **We cut consolidated EPS estimates by ~4-12% in FY25E-27E, led by weaker outlook for the EU. So, we pare TP to INR 1,155 on 30x FY27E consolidated EPS as we roll forward. We reiterate Accumulate**

Expect Defence to revive; see green-shoots in Aerospace: Defence revenue came in at INR 3.4bn, down 32% QoQ in Q3FY25 (hit by lumpy execution of defence orders), with an executable orderbook of INR 57.1bn. New orders worth ~INR 1bn further strengthened its pipeline, while ATAGS orders are expected in 3-4 months, driving long-term growth. Series production and revenue realization may commence in 15-18 months. The Aerospace segment is on an upward trajectory, backed by investments in landing gear machining and a precision ring mill.

Europe to remain a drag; expect flat consolidated revenue growth: BHFC anticipates a stronger Q4FY25 for India's CV market, while the CV segment in North America is set to improve by ~10% in H2FY26. Outlook for Europe is uncertain due to elections and policy shifts. Restructuring decisions for European operations are expected in six months, with losses likely to stay elevated for 2-3 quarters before improving. Policy shifts in the US market adds to uncertainty. **Owing to these positives and negatives, BHFC expects FY26 consolidated revenue to remain flat.** Note that, European operations contribute 26% to total revenues and 2% to EBITDA (in Q3FY25).

Reiterate Accumulate with a lower TP of INR 1,155: There were expectations that the European business would turn around, which would be a significant delta in subsidiary performance over FY26-27. However, BHFC acknowledged that turning around European operations is proving to be difficult and restructuring of operations is likely in the next six months.

The Defence business may revive after a brief pause in Q3FY25. We are monitoring the cyclicity of *Class 8* truck market in the US (management sounded positive on growth) and underperformance in the PV and CV segments in India. We reiterate **Accumulate** and lower our TP to INR 1,155 from INR 1,523 on 30x FY27E P/E, led by weaker outlook for the EU.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	129,103	156,821	157,464	159,931	172,193
YoY (%)	(12.3)	44.7	15.6	3.2	10.4
EBITDA (INR mn)	17,675	25,579	29,564	30,521	33,681
EBITDA margin (%)	13.7	16.3	18.8	19.1	19.6
Adj PAT (INR mn)	5,342	8,814	13,849	15,554	17,932
YoY (%)	-51.2	80.0	30.5	25.3	15.8
Fully DEPS (INR)	11.5	18.9	29.7	33.4	38.5
RoE (%)	8.0	13.7	16.2	17.7	17.8
RoCE (%)	8.0	12.1	14.0	13.3	14.0
P/E (x)	115.3	69.9	44.5	39.6	34.4
EV/EBITDA (x)	37.5	25.7	21.9	20.9	18.6

Note: Pricing as on 12 February 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 1,155**

Upside: **5%**

CMP: **INR 1,105**

As on 12 February 2025

Key data

Bloomberg	BHFC IN
Reuters Code	BFRG.NS
Shares outstanding (mn)	478
Market cap (INR bn/USD mn)	528/6079
Enterprise Value (INR bn/USD mn)	585/6736
Avg daily volume 3M (INR mn/USD mn)	1432/16
52 week high/low	1826/1063
Free float (%)	55

Note: as on 12 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

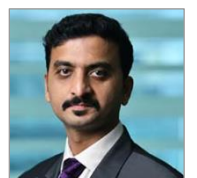
Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	45.3	45.3	45.3	44.1
% Pledged	-	-	-	-
FII	16.5	17.0	18.7	17.9
DII	28.3	28.2	26.5	28.6
Others	9.9	9.5	9.5	9.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(3.5)	(5.3)	6.6
Bharat Forge	(18.8)	(30.7)	(2.3)
NSE Mid-cap	(8.1)	(11.5)	6.5
NSE Small-cap	(10.9)	(13.1)	2.7

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	129,103	156,821	157,464	159,931	172,193
EBITDA	17,675	25,579	29,564	30,521	33,681
Add:- Non operating Income	1,729	2,274	2,210	2,380	2,509
OPBIDTA	19,404	27,854	31,773	32,901	36,191
Less :- Depreciation & Amortization	7,356	8,482	8,513	9,218	9,756
EBIT	12,048	19,372	23,260	23,683	26,435
Less:- Interest Expenses	2,986	4,912	4,281	3,301	3,189
PBT	9,062	14,460	18,980	20,382	23,245
Less :- Taxes	3,186	5,288	5,191	4,968	5,463
Share of minority interests	(200)	(411)	(40)	(40)	(40)
Profit from associates	(334)	53	100	180	190
Adj PAT	5,342	8,814	13,849	15,554	17,932
Add/Less: - Extra-ordinaries	(458)	(123)	(1,518)	0	0
Reported PAT	4,884	8,691	12,331	15,554	17,932
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	931	931	931	931	931
Reserves	66,124	70,771	80,700	93,143	107,552
Net worth	67,055	71,702	81,631	94,074	108,484
Borrowings	68,523	75,221	73,221	71,221	69,221
Minority Interest	361	(49)	(49)	(49)	(49)
Deferred Tax (Net)	(2,153)	(1,691)	(1,691)	(1,691)	(1,691)
Other liabilities	24,236	21,306	19,167	19,876	21,130
Total Liabilities	162,328	169,870	175,660	186,812	200,476
Gross Block	134,675	147,740	156,401	165,197	173,807
Less:- Accumulated Depreciation	76,021	84,503	93,016	102,234	111,990
Net Block	58,654	63,238	63,385	62,963	61,817
Add:- Capital work in progress	9,966	9,769	10,257	10,770	11,309
Investments	25,688	18,490	23,454	29,676	36,881
Net Working Capital	40,624	41,211	38,046	39,801	42,756
Cash and Cash Equivalents	10,395	16,899	19,242	21,262	24,257
Other Assets	17,001	20,263	21,276	22,340	23,457
Total Assets	162,328	169,870	175,660	186,812	200,476
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	13,232	17,654	22,302	24,632	27,538
Add/Less : Working Capital Changes	(8,210)	(587)	3,165	(1,755)	(2,955)
Operating Cash Flow	12,945	16,644	22,315	22,522	24,721
Less:- Capex	(9,962)	(15,240)	(8,661)	(8,796)	(8,610)
Free Cash Flow	2,983	1,404	13,655	13,726	16,111
Financing Cash Flow	2,803	(2,027)	(4,482)	(5,111)	(5,602)
Investing Cash Flow	(16,714)	(6,667)	(13,625)	(15,018)	(15,814)
Net change in Cash	(966)	7,950	4,208	2,393	3,304
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	23.4	21.5	0.4	1.6	7.7
EBITDA Growth	(12.3)	44.7	15.6	3.2	10.4
PAT Growth	(51.2)	80.0	30.5	25.3	15.8
EBITDA Margin	13.7	16.3	18.8	19.1	19.6
Net Margin	4.1	5.6	8.8	9.7	10.4
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.7	0.6	0.4	0.2	0.1
ROE (%)	8.0	13.7	16.2	17.7	17.8
ROCE (%)	8.0	12.1	14.0	13.3	14.0
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	11.5	18.9	29.7	33.4	38.5
EPS Growth (%)	(51.2)	80.0	30.5	25.3	15.8
DPS (INR/Share)	5.5	6.5	5.3	6.7	7.7
P/E Ratio (x)	115.3	69.9	44.5	39.6	34.4
EV/EBITDA (x)	37.5	25.7	21.9	20.9	18.6
EV/Sales (x)	5.1	4.2	4.1	4.0	3.6
Price/Book (x)	9.2	8.6	7.5	6.5	5.7
Dividend Yield (%)	0.4	0.5	0.4	0.5	0.6

Note: Pricing as on 12 February 2025; Source: Company, Elara Securities Estimate

Industrial and Automotive segments: Balancing expansion and market headwinds

The Export Industrial segment saw significant growth in Oil & Gas and Aerospace, with US Infrastructure bolstering demand. The Ferrous Castings business targets an INR 10bn annual run rate in 6-8 quarters, with 250-300bps margin expansion. In Automotive, domestic PV rebounded, but demand in Europe and the US continued to struggle.

Quarterly financials

Consolidated (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue	34,755	38,664	(10.1)	36,885	(5.8)	35,825	(3.0)
Operating costs	28,512	31,686	(10.0)	30,412	(6.2)	29,692	(4.0)
EBITDA	6,244	6,979	(10.5)	6,473	(3.5)	6,134	1.8
EBITDA margin (%)	18.0	18.0	-8	17.5	42	17.1	84.4
Depn & amort.	2,182	2,237	(2.4)	2,133	2.3	2,150	1.5
EBIT	4,061	4,742	(14.4)	4,339	(6.4)	3,984	1.9
Interest expense	960	1,368	(29.9)	1,098	(12.6)	1,200	(20.0)
Other income	384	560	(31.4)	616	(37.8)	540	(29.0)
Pretax profit	3,485	3,933	(11.4)	3,858	(9.6)	3,324	4.9
Tax	1,342	1,406	(4.5)	1,419	(5.4)	1,163	15.4
Tax rate (%)	38.5	35.7	277	36.8	4.7	35.0	351.0
Adjusted Net profit	2,143	2,527	(15.2)	2,439	(12.1)	2,160	(0.8)
Profit/loss of associate company	16	(117)		3		60	
Exceptionals	0	0		0		0	
Reported net profit	2,128	2,644	(19.5)	2,436	(12.7)	2,220	(4.2)
Adj EPS (INR)	4.6	5.4	(15.2)	5.2	(12.1)	4.6	(0.8)

Source: Company, Elara Securities Estimate

Q3 conference call highlights

- ▶ **Defence business** posted revenues of INR 3.4bn in Q3FY25. With order wins of ~INR 1bn in Q3, executable orderbook as on 9MFY25 stood at INR 57.1bn. Revenue was hit by the lumpy nature of order execution. Future growth is expected from domestic ATAGS orders and exports. ATAGS defence orders are expected to be finalized in 3-4 months. Series production and revenue realization may start in 15-18 months.
- ▶ **Aerospace business:** Expect strong growth, with new investments approved for machining landing gear components and a ring mill for high-precision forgings. Aerospace revenue is expected to hit INR 100mn per quarter by next year.
- ▶ **Industrial segment:** Oil & Gas and Aerospace witnessed growth, while high horsepower engines and rail segments saw temporary dips. Expect strong demand (~30% YoY growth), with future growth linked to infrastructure expansion in the US.
- ▶ **Castings business** is expected to reach INR 10bn annualized run rate in 6-8 quarters.
- ▶ **Automotive (PV and CV):** Demand weakness in Europe and the US impacted performance. Domestic PV rebounded strongly, while exports struggled in Europe CV and PV segments.
- ▶ **Restructuring of overseas operations:** BHFC is reviewing its European manufacturing footprint, with decisions expected in six months. Losses in Europe are expected to remain elevated for 2-3 quarters before restructuring yields results.
- ▶ **Policy uncertainty:** A slowdown in US and European EV transition may impact demand but is seen as temporary. There is uncertainty around new US tariffs on steel & aluminium (we are awaiting clarity on HSM codes and calculation methods).
- ▶ **Growth outlook:** Management expects consolidated performance to remain stable going forward as traction and order wins in new business are expected to offset slowdown in automotive industry. BHFC will undertake a review of manufacturing footprint in overseas operations, striving to achieve operational stability in a challenging environment.

Exhibit 1: Standalone segment-wise revenue

BHFC standalone (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Domestic CV	2,279	2,583	(11.8)	2,199	3.6
Domestic Industrial	5,126	5,896	(13.1)	6,392	(19.8)
Domestic PV	985	770	27.9	920	7.1
Exports CV	4,985	5,245	(5.0)	5,198	(4.1)
Exports Industrial	4,081	3,607	13.1	3,780	8.0
Exports PV	2,424	3,282	(26.1)	2,770	(12.5)
Others	1,059	1,247	(15.1)	1,207	(12.3)
Gross revenue	20,939	22,630	(7.5)	22,466	(6.8)

Source: Company, Elara Securities Research

Exhibit 2: Quarterly performance

Standalone (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Revenue	20,959	22,634	(7.4)	22,467	(6.7)
EBITDA	6,098	6,632	(8.0)	6,254	(2.5)
EBITDA margin (%)	29.1	29.3	(20)	27.8	126
PAT	3,470	3,778	(8.2)	3,476	(0.2)
Adj EPS (INR)	7.5	8.1	(8.2)	7.5	(0.2)

Source: Company, Elara Securities Research

Exhibit 3: Annual performance

Standalone (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	75,727	89,686	90,990	89,560	95,432
EBITDA	19,111	24,778	25,841	25,525	27,771
EBITDA margin (%)	25.2	27.6	28.4	28.5	29.1
PAT	10,857	14,404	15,102	14,858	15,884
Adj EPS (INR)	23.3	30.9	32.4	31.9	34.1

Source: Company, Elara Securities Estimate

Exhibit 4: Annual performance

Consolidated (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	129,103	156,821	157,464	159,931	172,193
EBITDA	17,675	25,579	29,564	30,521	33,681
EBITDA margin (%)	13.7	16.3	18.8	19.1	19.6
PAT	5,876	9,172	13,789	15,414	17,782
Adj EPS (INR)	11.5	18.9	29.7	33.4	38.5

Source: Company, Elara Securities Estimate

Exhibit 5: Key subsidiaries – Performance

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
European operations					
Revenues	8,889	10,534	(15.6)	9,529	(6.7)
EBITDA	100	218	(54.1)	376	(73.4)
EBITDA (%)	1.1	2.1	(94.5)	3.9	(282.1)
PBT before exceptional gain/loss	(917)	(739)	24.1	(527)	74.0
USA operations					
Revenues	2,090	2,565	(18.5)	1,918	9.0
EBITDA	(62)	0	-	(216)	(71.3)
EBITDA (%)	(3.0)	-	(296.7)	(11.3)	829.5
PBT before exceptional gain/loss	(427)	(361)	18.3	(609)	(29.9)
Kalyani Strategic Systems					
Revenues	3,195	4,349	(26.5)	4,682	(31.8)
EBITDA	184	272	(32.4)	333	(44.7)
EBITDA (%)	5.8	6.3	(49.5)	7.1	(135.3)
Kalyani Powertrain					
Revenues	6	21	(71.4)	29	(79.3)
EBITDA	(120)	(349)	(65.6)	(135)	(11.1)
EBITDA (%)	(2,000.0)	(1,661.9)	(33,809.5)	(465.5)	(153,448.3)

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
BFISL					
Revenues	1,915	1,666	14.9	1,920	(0.3)
EBITDA	250	235	6.4	228	9.6
EBITDA (%)	13.1	14.1	(105.1)	11.9	118.0

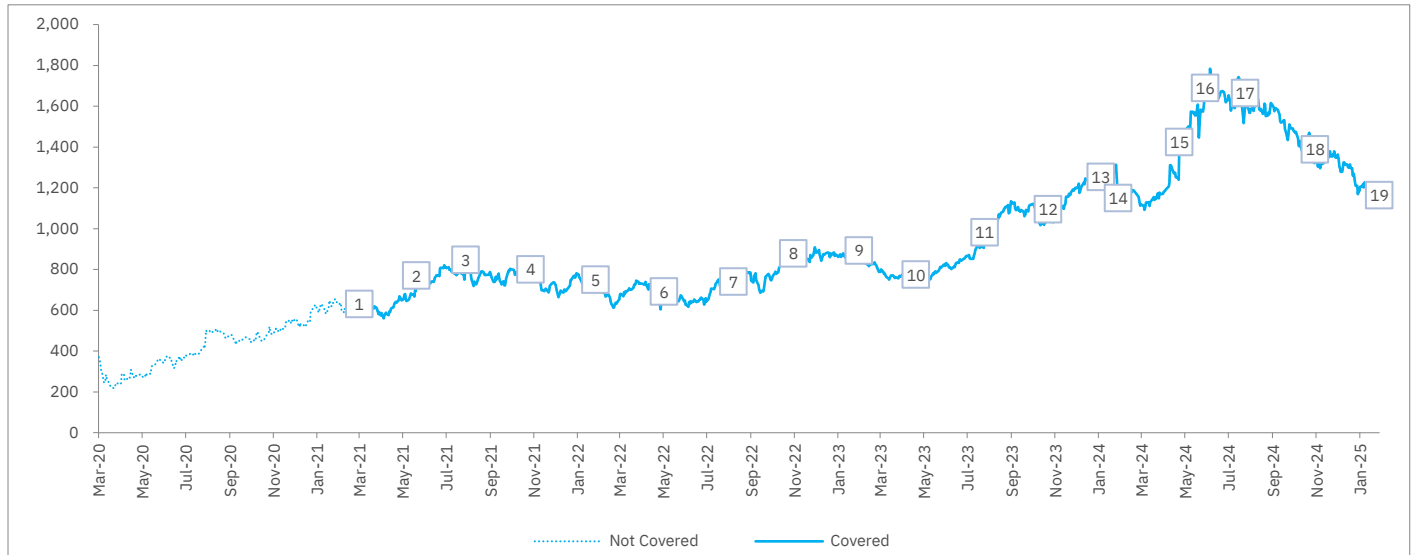
Source: Company, Elara Securities Research

Exhibit 6: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	161,280	173,347	193,905	157,464	159,931	172,193	(2.4)	(7.7)	(11.2)
EBITDA	30,268	32,795	36,783	29,564	30,521	33,681	(2.3)	(6.9)	(8.4)
EBITDA margin (%)	18.8	18.9	19.0	18.8	19.1	19.6	1	16	59
Adj. PAT	14,445	17,405	20,472	13,849	15,554	17,932	(4.1)	(10.6)	(12.4)
EPS (INR)	31.0	37.4	44.0	29.7	33.4	38.5	(4.1)	(10.6)	(12.4)
TP (INR)			1,523			1,155			(27)

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
9	14-Feb-2023	Accumulate	INR 1,040	INR 874
10	5-May-2023	Accumulate	INR 867	INR 760
11	9-Aug-2023	Accumulate	INR 1,018	INR 963
12	6-Nov-2023	Accumulate	INR 1,135	INR 1,076
13	19-Jan-2024	Accumulate	INR 1,272	INR 1,234
14	12-Feb-2024	Accumulate	INR 1,202	INR 1,131
15	8-May-2024	Accumulate	INR 1,550	INR 1,405
16	13-Jun-2024	Accumulate	INR 1,755	INR 1,637
17	8-Aug-2024	Accumulate	INR 1,800	INR 1,605
18	14-Nov-2024	Accumulate	INR 1,523	INR 1,327
19	12-Feb-2025	Accumulate	INR 1,155	INR 1,105

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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