

# Bharat Forge | BUY



## Healthy performance; Improvement in int'l biz. profitability remains key

In 2QFY24, Bharat Forge (BHFC) reported standalone EBITDAM of 27.0% (+270bps YoY, +120bps QoQ), 100bps above JMFe. Avg. realisation improved +2% QoQ (+5% YoY). Consol. EBITDA margin improved 110bps QoQ to 16.5% (+240bps YoY). Management highlighted that Class 8 demand remains steady in NA & EU. Order book remains healthy for BHFC across verticals. The company expects Defence business to grow in strong double-digits going ahead on the back of robust exports order book (INR 28bn). We see long-term growth triggers in BHFC intact, like the steady CV cycle in US and India and strong ramp-up of PV, Aerospace and Defence vertical. Cost-control initiatives and positive operating leverage are likely to support margins. We increase our consol. earnings estimate by 3-5% for FY25/26e. Maintain BUY with a Mar'25 TP of INR 1,150 (25x forward earnings). Weakness in global CV cycle remains a key risk.

- 2QFY24 – India business beats est.; International subsidiaries affected by seasonality:** BHFC's stand. net sales stood at INR 22.5bn (+21% YoY, +6%QoQ); 1% above JMFe. Total tonnage stood at c.70.3kt (+15% YoY, +4% QoQ). Realisation increased by +2% QoQ (+5% YoY). Reported stand. EBITDAM was 27.0% (+270bps YoY, +120bps QoQ), 100bps above JMFe led by cost control efforts. Consolidated revenue stood at INR 37.7bn (+23%, -3%); 5% below JMFe due to seasonality at EU operations. EBITDAM stood at 16.5% (+240bps YoY, +110bps QoQ). EBITDAM at EU operations declined 90bps QoQ to 3.5% due to seasonality. Consol. EBITDA stood at INR 6.2bn (+44%YoY, +4% QoQ), 5% below JMFe. Consol. Adj. PAT stood at INR 2.15bn (+52% YoY; flat QoQ).
- Domestic business outlook:** Domestic revenue increased 21%YoY (+1% QoQ). CV revenue increased 7% YoY (-5% QoQ) to INR 2.6bn. CV demand is expected to remain healthy led by higher govt spends on infra. PV revenue stood at INR 817mn (-18% YoY, +31% QoQ). PV business remains well-placed for growth driven by premiumisation and shift towards UVs. Domestic Industrial segment revenue increased 36% YoY (+1% QoQ) to INR c.6.2bn led by strong growth in Defence segment. Order pipeline remains strong led by revival in infrastructure and capital goods. During 1H, the company won new business worth INR7.4bn across various segments incl. INR 3bn for E-mobility programs. In respect of Defence segment, the company secured new business worth INR11bn taking total orderbook to INR 30bn (domestic + exports; to be executed over coming 24 mths). The company expects to secure order for ATAG guns from Govt of India in the near-term.
- Export business outlook:** Exports revenue increased 21%YoY (+9% QoQ) to INR 12.8bn led by healthy demand across segments. CV segment revenue stood at INR 5.4bn (+18% YoY, +9% QoQ) led by market share gains and addition of new geographies. Management indicated that Class 8 truck production remains steady and outlook for next CY is flattish. Demand remains steady in NA and EU. PV segment revenue increased 39% YoY (+21% QoQ) to INR 3.4bn owing to healthy demand from existing and new customers for existing and new products (mkt. share gain and enhanced geographical presence). Industrial revenue stood at INR 5.5bn (+18% YoY, +9% QoQ). Despite inventory correction in O&G segment, Industrials revenue remained resilient led by new business wins for expanded product portfolio. Order book for Defence segment also

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,150
Upside/(Downside)	6.9%
Previous Price Target	1,025
Change	12.2%

### Key Data – BHFC IN

Current Market Price	INR1,076
Market cap (bn)	INR500.8/US\$6.0
Free Float	55%
Shares in issue (mn)	465.6
Diluted share (mn)	465.6
3-mon avg daily val (mn)	INR1,326.9/US\$15.9
52-week range	1,148/744
Sensex/Nifty	64,959/19,412
INR/US\$	83.2

### Price Performance

%	1M	6M	12M
Absolute	-1.5	41.5	25.8
Relative*	0.1	33.0	18.1

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,04,611	1,29,103	1,57,016	1,75,279	1,90,188
Sales Growth (%)	65.1	23.4	21.6	11.6	8.5
EBITDA	20,159	17,675	26,271	32,103	35,979
EBITDA Margin (%)	19.3	13.7	16.7	18.3	18.9
Adjusted Net Profit	9,894	5,742	12,932	18,172	21,086
Diluted EPS (INR)	21.2	12.3	27.8	39.0	45.3
Diluted EPS Growth (%)	450.1	-42.0	125.2	40.5	16.0
ROIC (%)	11.9	6.7	12.4	16.1	17.6
ROE (%)	16.5	8.7	18.0	21.8	21.2
P/E (x)	50.6	87.2	38.7	27.6	23.8
P/B (x)	7.6	7.5	6.6	5.5	4.6
EV/EBITDA (x)	26.3	30.5	20.2	16.3	14.2
Dividend Yield (%)	0.3	0.7	0.7	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 06/Nov/2023

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

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remains strong at INR28bn, to be executed over next 24 months. The company is focusing on winning new business targeted at Construction & Mining, Railways, Agri equipment, Aerospace etc.

- **Overseas manufacturing operations:** During 2QFY24, overseas manufacturing subsidiaries revenue stood at INR 12bn (+27% YoY, -10% QoQ). EBITDA margin at EU operations declined 90bps QoQ to 3.5% owing to seasonality. EU operation is currently operating at c.70% utilization level and the management indicated that it expects EBITDA margins to improve significantly led by cost reduction efforts, focus on value added business and higher capacity utilization (once phase 2 plant becomes operational). The company also indicated that US Aluminium forging plant is gradually ramping-up (50% cap. utilisation currently) and it expects the plant to be EBITDA breakeven at 75% utilisation level.
- **Other highlights:** BHFC has reduced debt by INR 3bn during 1HFY24 and plans further debt reduction of close to INR 5bn in 2HFY24.

### Exhibit 1. BHFC (standalone) - financial performance

(INR mn)	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ	Q2FY24	% A/E
<b>Net Sales</b>	<b>22,494</b>	<b>18,639</b>	<b>20.7</b>	<b>21,273</b>	<b>5.7</b>	<b>22,286</b>	<b>0.9</b>
RM	9,744	8,281	17.7	9,420	3.4	9,806	-0.6
As a % of sales	43.3	44.4	-110bps	44.3	-100bps	44.0	-70bps
Employee Exp	1,506	1,351	11.5	1,494	0.8	1,560	-3.4
As a % of sales	6.7	7.2	-60bps	7.0	-30bps	7.0	-30bps
Other Costs	5,175	4,477	15.6	4,873	6.2	5,126	1.0
As a % of sales	23.0	24.0	-100bps	22.9	10bps	23.0	0bps
Expenditure	16,426	14,109	16.4	15,786	4.1	16,492	-0.4
<b>EBITDA</b>	<b>6,068</b>	<b>4,530</b>	<b>33.9</b>	<b>5,487</b>	<b>10.6</b>	<b>5,794</b>	<b>4.7</b>
<b>EBITDA Margin</b>	<b>27.0</b>	<b>24.3</b>	<b>270bps</b>	<b>25.8</b>	<b>120bps</b>	<b>26.0</b>	<b>100bps</b>
Other Income	424	477	-11.2	472	-10.3	500	-15.3
Interest	726	357	103.2	705	3.0	725	0.2
Depreciation	1,128	1,066	5.9	1,089	3.6	1,125	0.3
PBT	4,637	3,585	29.4	4,165	11.3	4,444	4.3
Tax	1,156	897	28.8	1,050	10.1	1,116	3.6
Tax rate (%)	24.9	25.0	-10bps	25.2	-30bps	25.1	-20bps
<b>PAT (Adjusted)</b>	<b>3,481</b>	<b>2,687</b>	<b>29.5</b>	<b>3,115</b>	<b>11.7</b>	<b>3,329</b>	<b>4.6</b>
<b>PAT Margin</b>	<b>15.5</b>	<b>14.4</b>	<b>110bps</b>	<b>14.6</b>	<b>80bps</b>	<b>14.9</b>	<b>50bps</b>
<b>EPS</b>	<b>7.5</b>	<b>5.8</b>	<b>29.5</b>	<b>6.7</b>	<b>11.7</b>	<b>7.1</b>	<b>4.6</b>

Source: Company, JM Financial

### Exhibit 2. Standalone - segmental performance

(INR mn)	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ	Q2FY24	% A/E
<b>Total revenue</b>	<b>22,493</b>	<b>18,640</b>	<b>21</b>	<b>21,274</b>	<b>6</b>	<b>22,286</b>	<b>1</b>
<b>Domestic</b>	<b>9,622</b>	<b>7,976</b>	<b>21</b>	<b>9,485</b>	<b>1</b>	<b>10,178</b>	<b>(5)</b>
CV	2,603	2,428	7	2,734	(5)	2,871	(9)
Industrial	6,202	4,555	36	6,127	1	6,652	(7)
PV	817	993	(18)	624	31	655	25
<b>Exports</b>	<b>12,871</b>	<b>10,664</b>	<b>21</b>	<b>11,789</b>	<b>9</b>	<b>12,108</b>	<b>6</b>
CV	5,474	4,630	18	5,023	9	5,123	7
Industrial	4,033	3,611	12	3,984	1	4,064	(1)
PV	3,364	2,423	39	2,782	21	2,921	15

Source: Company, JM Financial

**Exhibit 3. Consolidated performance**

(INR mn)	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ
<b>Net Sales</b>	<b>37,742</b>	<b>30,764</b>	<b>22.7</b>	<b>38,773</b>	<b>-2.7</b>
RM	17,642	13,612	29.6	18,780	-6.1
As a % of sales	46.7	44.2	250bps	48.4	-170bps
Employee Exp	4,627	4,006	15.5	4,726	-2.1
As a % of sales	12.3	13.0	-80bps	12.2	10bps
Other Costs	9,258	8,826	4.9	9,313	-0.6
As a % of sales	24.5	28.7	-420bps	24.0	50bps
Expenditure	31,528	26,444	19.2	32,819	-3.9
<b>EBITDA</b>	<b>6,214</b>	<b>4,320</b>	<b>43.9</b>	<b>5,954</b>	<b>4.4</b>
<b>EBITDA Margin</b>	<b>16.5</b>	<b>14.0</b>	<b>240bps</b>	<b>15.4</b>	<b>110bps</b>
<b>PAT (Adjusted)</b>	<b>2,148</b>	<b>1,415</b>	<b>51.8</b>	<b>2,137</b>	<b>0.5</b>
<b>PAT Margin</b>	<b>5.7</b>	<b>4.6</b>	<b>110bps</b>	<b>5.5</b>	<b>20bps</b>
<b>EPS</b>	<b>4.6</b>	<b>3.0</b>	<b>51.8</b>	<b>4.6</b>	<b>0.5</b>

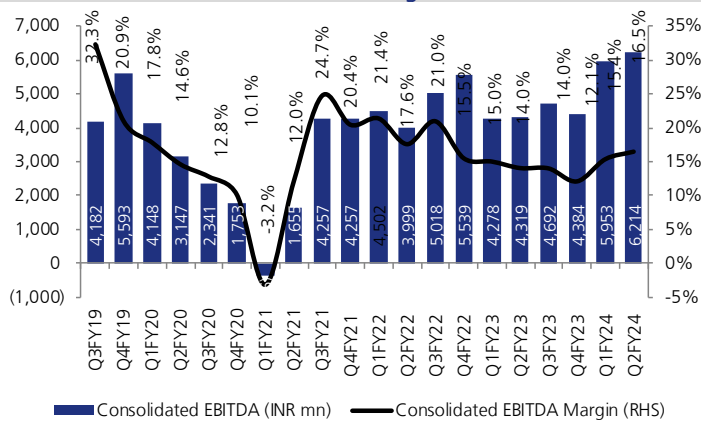
Source: Company, JM Financial

**Exhibit 4. BHFC - overseas manufacturing subsidiaries' performance**

(INR mn)	Q2FY24	Q2FY23	% YoY	Q1FY24	% QoQ
<b>Net Sales</b>	<b>12,053</b>	<b>9,470</b>	<b>27.3</b>	<b>13,336</b>	<b>(9.6)</b>
EBITDA	90	-141	NA	158	-43.0
<b>EBITDA Margin</b>	<b>0.7</b>	<b>-1.5</b>	<b>220bps</b>	<b>1.2</b>	<b>-40bps</b>
PBT	(1,156)	(1,157)	NA	(930)	NA

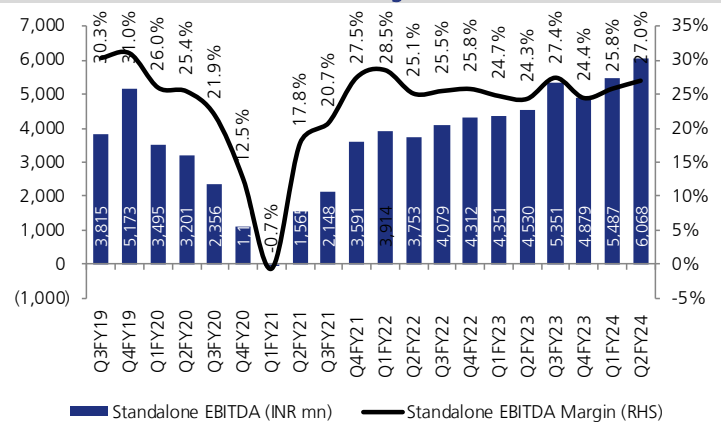
Source: Company, JM Financial-

**Exhibit 5. Consolidated EBITDA and margin trend**



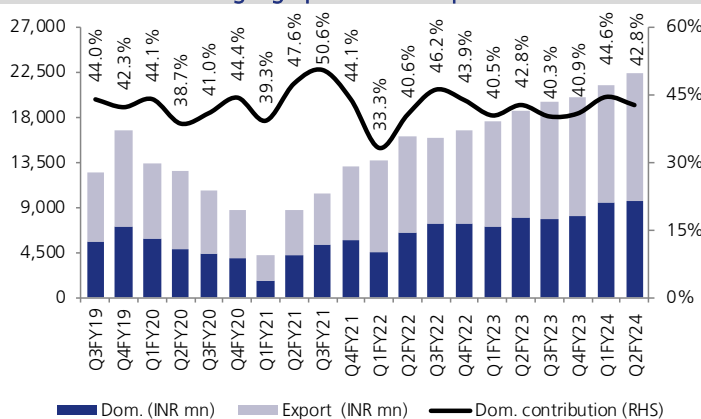
Source: Company, JM Financial

**Exhibit 6. Standalone EBITDA and margin trend**



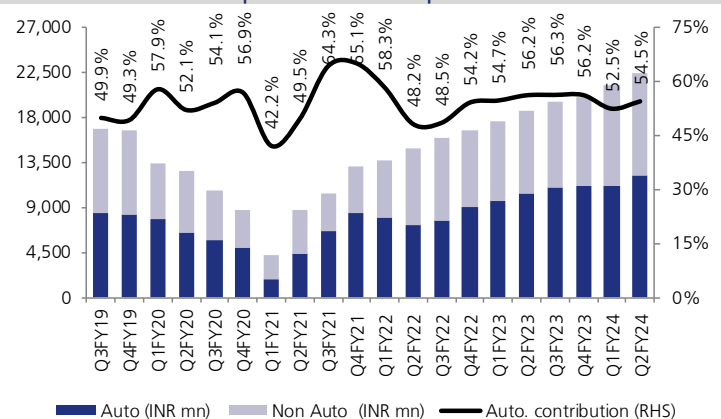
Source: Company, JM Financial

**Exhibit 7. Standalone - geographic revenue split**



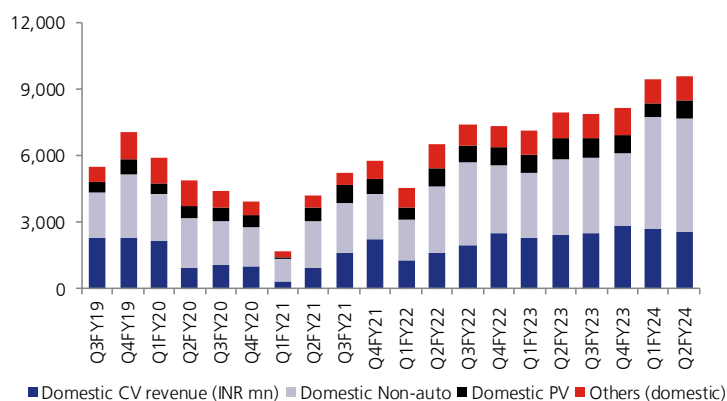
Source: Company, JM Financial

**Exhibit 8. Standalone - product revenue split**



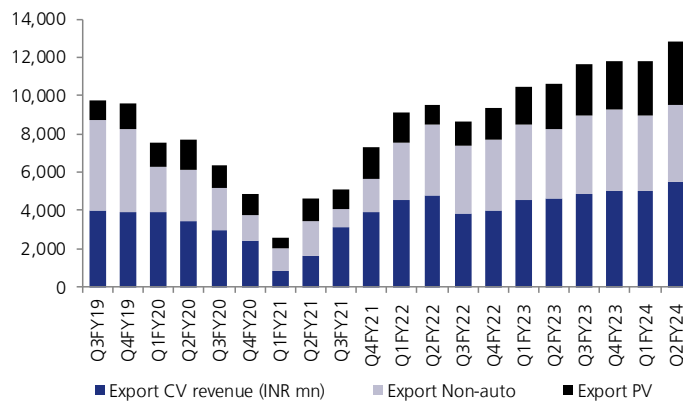
Source: Company, JM Financial

**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		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue (INR mn)	157,016	175,279	190,188	147,424	162,941	177,514	6.5%	7.6%	7.1%
EBITDA (INR mn)	26,271	32,103	35,979	24,696	30,467	33,784	6.4%	5.4%	6.5%
EBITDAM(%)	16.7%	18.3%	18.9%	16.8%	18.7%	19.0%	(10bps)	(40bps)	(20bps)
PAT (INR mn)	12,932	18,172	21,086	12,821	17,568	20,156	0.9%	3.4%	4.6%
EPS (INR)	27.8	39.0	45.3	27.5	37.7	43.3	0.9%	3.4%	4.6%

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	1,04,611	1,29,103	1,57,016	1,75,279	1,90,188	
Sales Growth	65.1%	23.4%	21.6%	11.6%	8.5%	
Total Revenue	1,04,611	1,29,103	1,57,016	1,75,279	1,90,188	
<b>Cost of Goods Sold/Op. Exp</b>	<b>42,160</b>	<b>59,614</b>	<b>73,484</b>	<b>80,628</b>	<b>86,726</b>	
Personnel Cost	14,647	15,631	19,077	21,067	22,723	
Other Expenses	27,645	36,183	38,185	41,481	44,761	
EBITDA	20,159	17,675	26,271	32,103	35,979	
<b>EBITDA Margin</b>	<b>19.3%</b>	<b>13.7%</b>	<b>16.7%</b>	<b>18.3%</b>	<b>18.9%</b>	
EBITDA Growth	133.9%	-12.3%	48.6%	22.2%	12.1%	
Depn. & Amort.	7,303	7,356	8,101	8,593	9,151	
EBIT	12,856	10,319	18,170	23,510	26,828	
Other Income	1,959	1,729	2,606	3,005	3,412	
Finance Cost	1,604	2,986	2,745	2,485	2,325	
PBT before Excep. & Forex	13,212	9,062	18,031	24,030	27,914	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	13,212	9,062	18,031	24,030	27,914	
Taxes	3,035	3,186	5,049	6,007	6,979	
Extraordinary Inc./Loss(-)	924	-458	0	0	0	
Assoc. Profit/Min. Int.(-)	283	134	50	-150	-150	
Reported Net Profit	10,818	5,285	12,932	18,172	21,086	
Adjusted Net Profit	9,894	5,742	12,932	18,172	21,086	
<b>Net Margin</b>	<b>9.5%</b>	<b>4.4%</b>	<b>8.2%</b>	<b>10.4%</b>	<b>11.1%</b>	
Diluted Share Cap. (mn)	465.6	465.6	465.6	465.6	465.6	
Diluted EPS (INR)	21.2	12.3	27.8	39.0	45.3	
<b>Diluted EPS Growth</b>	<b>450.1%</b>	<b>-42.0%</b>	<b>125.2%</b>	<b>40.5%</b>	<b>16.0%</b>	
Total Dividend + Tax	1,630	3,259	3,492	3,725	3,725	
Dividend Per Share (INR)	3.5	7.0	7.5	8.0	8.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	13,212	9,062	18,031	24,030	27,914	
Depn. & Amort.	7,303	7,356	8,101	8,593	9,151	
Net Interest Exp. / Inc. (-)	1,604	2,986	2,745	2,485	2,325	
Inc (-) / Dec in WCap.	-18,520	-815	-808	-4,222	-3,273	
Others	885	-792	-50	150	150	
Taxes Paid	-3,035	-3,186	-5,049	-6,007	-6,979	
<b>Operating Cash Flow</b>	<b>1,449</b>	<b>14,611</b>	<b>22,970</b>	<b>25,028</b>	<b>29,289</b>	
Capex	-10,750	-16,029	-9,659	-9,934	-10,217	
Free Cash Flow	-9,301	-1,418	13,311	15,094	19,072	
Inc (-) / Dec in Investments	30	349	-5,000	-5,000	-5,000	
Others	-1,604	-2,986	-2,745	-2,485	-2,325	
<b>Investing Cash Flow</b>	<b>-12,324</b>	<b>-18,666</b>	<b>-17,404</b>	<b>-17,419</b>	<b>-17,542</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,630	-3,259	-3,492	-3,725	-3,725	
Inc / Dec (-) in Loans	11,166	13,416	-9,000	-4,000	-4,000	
Others	2,640	-1,737	-122	-117	-111	
<b>Financing Cash Flow</b>	<b>12,176</b>	<b>8,420</b>	<b>-12,615</b>	<b>-7,842</b>	<b>-7,836</b>	
<b>Inc / Dec (-) in Cash</b>	<b>1,302</b>	<b>4,365</b>	<b>-7,049</b>	<b>-233</b>	<b>3,911</b>	
Opening Cash Balance	4,729	6,030	10,395	3,346	3,113	
Closing Cash Balance	6,030	10,395	3,346	3,113	7,024	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	65,707	67,055	76,373	90,704	1,07,953	
Share Capital	931	931	931	931	931	
Reserves & Surplus	64,775	66,124	75,442	89,772	1,07,022	
Preference Share Capital	0	0	0	0	0	
Minority Interest	561	361	361	361	361	
Total Loans	59,716	73,132	64,132	60,132	56,132	
Def. Tax Liab. / Assets (-)	1,718	658	658	658	658	
<b>Total - Equity &amp; Liab.</b>	<b>1,27,702</b>	<b>1,41,206</b>	<b>1,41,524</b>	<b>1,51,855</b>	<b>1,65,104</b>	
Net Fixed Assets	59,947	68,621	70,179	71,520	72,586	
Gross Fixed Assets	1,15,718	1,33,409	1,45,921	1,55,580	1,65,514	
Intangible Assets	1,197	3,771	3,771	3,771	3,771	
Less: Depn. & Amort.	68,215	75,571	83,672	92,265	1,01,416	
Capital WIP	11,248	7,012	4,159	4,434	4,717	
Investments	26,038	25,688	30,688	35,688	40,688	
Current Assets	68,933	88,038	86,186	94,517	1,05,608	
Inventories	27,105	31,263	34,415	38,417	41,685	
Sundry Debtors	21,736	30,988	32,264	36,016	39,080	
Cash & Bank Balances	6,030	10,395	3,346	3,113	7,024	
Loans & Advances	5,114	3,066	3,219	3,380	3,549	
Other Current Assets	8,949	12,327	12,943	13,590	14,270	
Current Liab. & Prov.	27,216	41,140	45,529	49,870	53,778	
Current Liabilities	24,539	38,827	42,985	47,072	50,699	
Provisions & Others	2,677	2,313	2,544	2,799	3,079	
Net Current Assets	41,717	46,897	40,657	44,646	51,830	
<b>Total - Assets</b>	<b>1,27,702</b>	<b>1,41,206</b>	<b>1,41,524</b>	<b>1,51,855</b>	<b>1,65,104</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	9.5%	4.4%	8.2%	10.4%	11.1%	
Asset Turnover (x)	0.9	1.0	1.1	1.2	1.2	
Leverage Factor (x)	1.9	2.0	2.0	1.7	1.6	
RoE	16.5%	8.7%	18.0%	21.8%	21.2%	

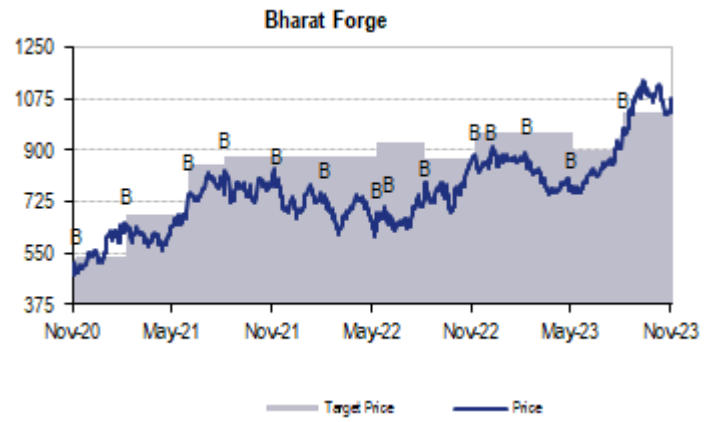
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	141.1	144.0	164.0	194.8	231.8	
ROIC	11.9%	6.7%	12.4%	16.1%	17.6%	
ROE	16.5%	8.7%	18.0%	21.8%	21.2%	
Net Debt/Equity (x)	0.4	0.6	0.4	0.2	0.1	
P/E (x)	50.6	87.2	38.7	27.6	23.8	
P/B (x)	7.6	7.5	6.6	5.5	4.6	
EV/EBITDA (x)	26.3	30.5	20.2	16.3	14.2	
EV/Sales (x)	5.1	4.2	3.4	3.0	2.7	
Debtor days	76	88	75	75	75	
Inventory days	95	88	80	80	80	
Creditor days	106	127	120	120	120	

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
10-Feb-20	Buy	550	
13-Apr-20	Buy	330	-40.0
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

**Recommendation History**



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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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.

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