

Bharat Forge

Estimate changes

TP change

Rating change



Bloomberg	BHFC IN
Equity Shares (m)	478
M.Cap.(INRb)/(USDb)	544.7 / 6.2
52-Week Range (INR)	1655 / 919
1, 6, 12 Rel. Per (%)	-10/-4/-27
12M Avg Val (INR M)	1592

Consol. Financials & Valuations (INR b)

Y/E Mar	2025	2026E	2027E
Sales	151.2	157.3	175.5
EBITDA (%)	17.8	17.3	17.8
Adj. PAT	10.1	12.4	15.8
EPS (INR)	21.4	25.9	33.1
EPS Gr. (%)	8.5	20.8	28.2
BV/Sh. (INR)	194	211	234

Ratios

Net D:E	0.6	0.5	0.4
RoE (%)	12.3	12.8	14.9
RoCE (%)	8.2	8.8	10.2
Payout (%)	31.3	30.7	33.3

Valuations

P/E (x)	53.2	44.1	34.4
P/BV (x)	5.9	5.4	4.9
EV/EBITDA (x)	21.5	20.8	17.9
Div. Yield (%)	0.5	0.7	1.0

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	44.1	44.1	45.3
DII	31.4	30.4	28.1
FII	14.4	16.1	17.0
Others	10.2	9.5	9.6

FII Includes depository receipts

CMP: INR1,139
TP: INR1,060 (-7%)
Neutral

Weak demand leads to margin pressure

Multiple headwinds ahead

- In 1QFY26, BHFC standalone PAT declined 10.6% YoY to INR3.4b (below expectations) due to weaker than expected demand. Key highlight of the quarter was the improvement in the performance of its overseas subsidiaries.
- Considering the weak 1Q performance and a weak outlook for most of its key segments, we have lowered our FY26/FY27 EPS estimates by 12%/15%. Management has noted that FY26 is likely to be challenging amid tariff-led uncertainties and changes in emission regulation in North America. Given these factors, the stock at 44x/34.4x FY26E/FY27E consolidated EPS appears fairly valued. We reiterate our Neutral rating with a TP of INR1,060 (based on 30x Jun'27E consolidated EPS).

Weak demand drives margin pressure, overseas margin improves

- Standalone revenue declined 10% YoY/2.7% QoQ to INR21.0b, impacted by weak export demand (down 12.7% QoQ/8.1% YoY), particularly in North America due to emission regulation delays and tariff-related challenges.
- Domestic revenue declined 9.7% YoY due to a high base in defense and aerospace. In domestic business, the non-auto segment declined 21% YoY to INR5.7b, below our estimate of INR6.2b. While domestic CV declined 2% YoY (in line), domestic PV grew 19% YoY to INR 973m (ahead of our estimate of INR 857m).
- In exports, the ramp-up in CVs and non-auto was lower than estimated. CV exports declined 15% YoY to INR 4.5b (est. INR5.1b) and non-auto revenue declined 7% YoY to INR3.4b (est. INR4b). PV exports grew 5% YoY to INR2.9b (in line).
- Standalone EBITDA margin stood at 27.9% (est. 28.1%), down 120bp QoQ and 20bp YoY, impacted by lower utilization, an unfavorable product mix and adverse currency. Additionally, the company absorbed nearly INR140m in tariff-related expenses, which hurt margins.
- Overall, adjusted PAT declined 10.6% YoY (down 6.2% QoQ) to INR3.4b, lower than our estimate of INR3.9b.
- Consolidated revenue declined 4.8% YoY to INR39.1b, though grew 1.5% QoQ. Consolidated EBITDA stood at INR6.7b, down 9.2% YoY; however, it improved QoQ primarily due to increased profitability of overseas business and a reduction in losses of Kalyani Powertrain.
- Overseas subsidiaries' margins improved to 3.9% in 1Q from 1% YoY led by improved utilization levels. Europe subsidiaries' margin increased to 3.1% (from 1.2% YoY), while US subsidiaries' margin surged to 6.1% (from 1.3% YoY).

Highlights from the management interaction

- 2Q outlook remains cautious as the impact of new revised tariffs on Indian exports would be reflected in 2Q. Based on customer feedback, BHFC expects demand to revive in 2H. Over the medium to long term, management has stated that the primary focus will shift back to India operations from overseas, as India manufacturing will become more lucrative, driven by opportunities from machine tools and emerging sectors in the domestic market.
- US accounted for about one-third of exports from Indian manufacturing in 1Q.
- BHFC does not plan to set up a manufacturing facility anywhere outside India in the near term. Competitive landscape remains stable since, among major competitors in BHFC's crankshaft business, India faces the lowest tariff rates from the US.
- Management expects strong growth of over 20% in the aerospace business in FY26, based on the order backlog.
- Defense business has an order backlog of ~INR95b. BHFC has emerged as an L1 bidder for another tender to supply carbines with an order size of INR14b.
- Management aims to get into the server manufacturing business; however, this is still in the early stages and the primary focus would be on serving a niche customer base before scaling up capabilities and addressing the mass market.

Valuation and view

Given the weak 1Q performance and an expected weak outlook for most of its key segments, we have lowered our FY26/FY27 EPS estimates by 12% / 15%. Management has noted that FY26 is likely to be challenging amid tariff-led uncertainties and changes in emission regulation in North America. Given these factors, the stock at 44x/34.4x FY26E/FY27E consolidated EPS appears fairly valued. We reiterate our Neutral rating with a TP of INR1,060 (based on 30x Jun'27E consolidated EPS).

S/A Quarterly

	(INR M)											
	FY25				FY26E				FY25	FY26E	1QE	Var (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net operating income	23,381	22,467	20,960	21,630	21,047	22,223	23,311	24,635	88,437	91,217	22,632	-7.0
Change (%)	9.9	-0.1	-7.4	-7.1	-10.0	-1.1	11.2	13.9	-1.4	3.1	-3.2	
EBITDA	6,515	6,255	6,099	6,167	5,718	5,822	6,247	6,742	25,034	24,531	6,360	-10.1
EBITDA Margins (%)	27.9	27.8	29.1	28.5	27.2	26.2	26.8	27.4	28.3	26.9	28.1	
Non-Operating Income	446	348	314	481	422	420	455	530	1,589	1,827	510	
Interest	702	635	573	588	522	490	450	438	2,498	1,900	490	
Depreciation	1094	1083	1104	1122	1125	1140	1150	1168	4,404	4,582	1098	
EO Exp / (Inc)	1,457	-135	9	203	0	0	0	0		0	0	
PBT after EO items	3,708	5,019	4,727	4,735	4,493	4,612	5,102	5,667	19,721	19,875	5,282	-14.9
Tax	1014	1407	1266	1278	1108	1130	1250	1521	4,965	5,009	1320	
Eff. Tax Rate (%)	27.3	28.0	26.8	27.0	24.7	24.5	24.5	26.8	25.2	25.2	25.0	
Rep. PAT	2,694	3,612	3,461	3,456	3,385	3,482	3,852	4,146	14,756	14,867	3,961	
Change (%)	-13.5	4.4	-8.4	-11.3	25.6	-3.6	11.3	20.0	2.4	12.4	47.0	
Adj. PAT	3,787	3,510	3,468	3,608	3,385	3,482	3,852	4,146	13,223	14,867	3,961	-14.5
Change (%)	20.2	0.1	-4.8	-8.8	-10.6	-0.8	11.1	14.9	-7.2	3.4	4.6	

E: MOFSL Estimates