

Estimate changes

TP change

Rating change



**CMP: INR1,105**

**TP: INR1,155 (+5%)**

**Neutral**

## Disappointing performance

### Demand outlook for most businesses remains weak

- Bharat Forge (BHFC)'s 3QFY25 performance lagged our estimates, driven by slower growth across key segments as also a slower ramp-up of defense. Outlook for CV demand (both domestic and exports), PV exports and domestic non-auto remains weak. Even overseas subs are taking lot longer to turnaround. Its key growth drivers are likely to be defense and JSA.
- We sharply cut our FY25E/FY26E EPS by 25/17% to factor in the weak outlook in major segments, including CVs, slower-than-expected defense ramp up and also continued weakness in overseas subsidiary performance. The stock appears fairly valued at the current valuations of 33.9x/25.0x FY26E/FY27E consolidated EPS. We **reiterate our Neutral** rating with a TP of INR1,155 (based on 28x Dec'26E consolidated EPS).

### Weak performance overall but margins steer ahead

- BHFC's 3QFY25 standalone revenue/EBITDA/adj. PAT declined 7.0%/5.5%/5.0% YoY at INR21b/INR6.1b/INR3.5b (est. INR24b/INR6.7b/INR3.9b). Its 9MFY25 revenue/EBITDA/adj. PAT grew 1%/4%/4% YoY to INR66.8b/INR18.9b/INR10.7b.
- While domestic revenue declined ~10% YoY to INR9.2b, exports declined 5% YoY to INR11.5b. The primary factor for the decline in performance is the anemic economic condition in the EU and the lumpy nature of the defense business during the quarter.
- Key growth drivers in Q3 includes defense/JS Auto businesses, which posted revenue of INR3.37b/INR1.66b, with growth of 87%/20% YoY.
- Gross margin expanded 180bp YoY/70bp QoQ to 59.9% (est. 58%).
- This was offset by higher other operating expenses, resulting in an EBITDA decline of 6% YoY to INR6.1b (est. 6.7b).
- However, the EBITDA margin was better at 29.1% (+60bp YoY/130bp QoQ; est. 27.8%), due to a favorable product mix (exports at 55% of revenues).
- Adj. PAT declined 5% YoY to INR3.5b (est. INR3.9b).
- The BOD declared an interim dividend of INR2.50 per share.

### Highlights from the management interaction

- **CVs:** The Indian CV market is expected to post slightly better growth in 4Q QoQ while FY26 is likely to be flat. The US Class-8 CV demand is projected to grow 10% in FY26, largely back-ended. Uncertainty remains regarding potential tariff changes.
- **Global demand:** Weak demand in the EU and the US persists due to the industry transition to EVs and economic uncertainty. EU operations posted INR100m EBITDA, while US operations reduced losses to INR60m (with 60% utilization). Margin improvements in the US have been driven by cost reductions and efficiency. The company is conducting a comprehensive review of its European manufacturing footprint, with a clearer direction expected in six months.

| Bloomberg             | BHFC IN     |
|-----------------------|-------------|
| Equity Shares (m)     | 478         |
| M.Cap.(INRb)/(USD\$b) | 528.1 / 6.1 |
| 52-Week Range (INR)   | 1826 / 1063 |
| 1, 6, 12 Rel. Per (%) | -7/-25/-9   |
| 12M Avg Val (INR M)   | 1916        |

### Consol. Financials & Valuations (INR b)

| Y/E Mar      | 2025E | 2026E | 2027E |
|--------------|-------|-------|-------|
| Sales        | 150.3 | 167.2 | 198.9 |
| EBITDA (%)   | 18.0  | 19.1  | 19.5  |
| Adj. PAT     | 9.9   | 15.6  | 21.1  |
| EPS (INR)    | 21.0  | 32.6  | 44.2  |
| EPS Gr. (%)  | 6.4   | 55.3  | 35.6  |
| BV/Sh. (INR) | 194   | 213   | 238   |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 0.2  | 0.1  | 0.1  |
| RoE (%)    | 12.0 | 16.0 | 19.6 |
| RoCE (%)   | 8.3  | 11.1 | 13.6 |
| Payout (%) | 47.8 | 43.1 | 43.2 |

### Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 52.7 | 33.9 | 25.0 |
| P/BV (x)       | 5.7  | 5.2  | 4.6  |
| EV/EBITDA (x)  | 20.2 | 16.9 | 13.8 |
| Div. Yield (%) | 0.8  | 1.3  | 1.7  |

### Shareholding pattern (%)

| As On    | Dec-24 | Sep-24 | Dec-23 |
|----------|--------|--------|--------|
| Promoter | 44.1   | 45.3   | 45.3   |
| DII      | 28.5   | 26.5   | 27.9   |
| FII      | 17.9   | 18.7   | 16.6   |
| Others   | 9.6    | 9.6    | 10.2   |

FII Includes depository receipts

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- **Its aerospace segment** continues to be a key growth driver with a quarterly revenue run rate at INR5-6b currently and is likely to surpass triple digits per quarter in FY26. BHFC has approved new investments in landing gear machining and high-precision ring mill forgings. This facility is likely to commence production by FY27-end, and the segmental revenue can potentially double from there after this.
- JSA continues to see strong ramp-up and management expects this business to hit annualised run-rate of INR 10b in the next 6-8 quarters. They are also confident of margin expansion in this business by 250-300bp over next 2 years.
- **Defense revenue stood at INR3.4b** and the slower ramp-up was due to the lumpy nature of the business. For 9MFY25, defense revenue grew 49% YoY to INR14.9b. This segment has seen order wins of INR1b in 3Q with outstanding orders of INR57b. The domestic ATAG order is likely to be awarded in the next 3-4 months. However, serial production will commence 15-18 months from now

### Valuation and view

- The bulk of BHFC's core segments, including CVs (both domestic and export), PV exports and domestic non-auto are currently witnessing a demand slowdown. Further, the ongoing slowdown in the European PV segment has hurt the ramp-up of its overseas subsidiaries. However, its Defense, JS Auto Cast, and Aerospace segments are anticipated to be the growth pillars in the near term.
- We cut our FY25E/FY26E EPS by 25/17% to factor in the weak outlook in major segments (including CVs) and a slower-than-expected defense ramp-up. We estimate a CAGR of 15%/20%/46% in consolidated revenue/EBITDA/PAT over FY25-27. The stock appears fairly valued at the current valuations of 33.9x/25x FY26E/FY27E consolidated EPS. **Reiterate Neutral with a TP of INR1,155 (based on 28x Dec'26E consolidated EPS).**

### S/A Quarterly

|                             | FY24          |               |               |               | FY25          |               |               |               | FY24          | FY25E         | 3QE           | Variance (%) |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |               |              |
| <b>Net operating income</b> | <b>21,273</b> | <b>22,494</b> | <b>22,634</b> | <b>23,286</b> | <b>23,381</b> | <b>22,467</b> | <b>20,960</b> | <b>23,111</b> | <b>89,686</b> | <b>89,896</b> | <b>24,113</b> | <b>-13.1</b> |
| Change (%)                  | 20.9          | 20.7          | 15.9          | 16.6          | 9.9           | -0.1          | -7.4          | -0.8          | 18.4          | 0.2           | 6.5           |              |
| Total RM costs              | 9,420         | 9,744         | 9,491         | 9,647         | 9,777         | 9,167         | 8,401         | 9,368         | 38,301        | 36,714        | 10,127        |              |
| RM/Sales (%)                | 44.3          | 43.3          | 41.9          | 41.4          | 41.8          | 40.8          | 40.1          | 40.5          | 42.7          | 40.8          | 42.0          |              |
| Staff Cost                  | 1,494         | 1,506         | 1,510         | 1,504         | 1,626         | 1,617         | 1,583         | 1,627         | 6,014         | 6,454         | 1,688         |              |
| Staff Cost (% of Sales)     | 7.0           | 6.7           | 6.7           | 6.5           | 7.0           | 7.2           | 7.6           | 7.0           | 6.7           | 7.2           | 7.0           |              |
| Other Expenditure           | 4,826         | 5,133         | 5,181         | 5,594         | 5,463         | 5,428         | 4,877         | 5,358         | 20,593        | 21,126        | 5,594         |              |
| Other Exp. (% of Sales)     | 22.7          | 22.8          | 22.9          | 24.0          | 23.4          | 24.2          | 23.3          | 23.2          | 23.0          | 23.5          | 23.2          |              |
| <b>EBITDA</b>               | <b>5,534</b>  | <b>6,111</b>  | <b>6,453</b>  | <b>6,541</b>  | <b>6,515</b>  | <b>6,255</b>  | <b>6,099</b>  | <b>6,758</b>  | <b>24,777</b> | <b>25,603</b> | <b>6,703</b>  | <b>-9.0</b>  |
| EBITDA Margins (%)          | 26.0          | 27.2          | 28.5          | 28.1          | 27.9          | 27.8          | 29.1          | 29.2          | 27.6          | 28.5          | 27.8          |              |
| Non-Operating Income        | 472           | 424           | 346           | 382           | 446           | 348           | 314           | 353           | 1,623         | 1,461         | 400           |              |
| Interest                    | 705           | 726           | 809           | 634           | 702           | 635           | 573           | 580           | 2,874         | 2,490         | 600           |              |
| Depreciation                | 1,089         | 1,128         | 1,124         | 1,079         | 1,094         | 1,083         | 1,104         | 1,139         | 4,420         | 4,421         | 1,120         |              |
| EO Exp / (Inc)              | 47            | 63            | -179          | 82            | 1,457         | -135          | 9             | 0             | 154           |               | 0             |              |
| <b>PBT after EO items</b>   | <b>4,165</b>  | <b>4,616</b>  | <b>5,044</b>  | <b>5,127</b>  | <b>3,708</b>  | <b>5,019</b>  | <b>4,727</b>  | <b>5,392</b>  | <b>18,952</b> | <b>20,154</b> | <b>5,383</b>  |              |
| Tax                         | 1,050         | 1,156         | 1,266         | 1,231         | 1,014         | 1,407         | 1,266         | 1,452         | 4,703         | 5,139         | 1,454         |              |
| Eff. Tax Rate (%)           | 25.2          | 25.0          | 25.1          | 24.0          | 27.3          | 28.0          | 26.8          | 26.9          | 24.8          | 25.5          | 27.0          |              |
| <b>Rep. PAT</b>             | <b>3,115</b>  | <b>3,460</b>  | <b>3,778</b>  | <b>3,897</b>  | <b>2,694</b>  | <b>3,612</b>  | <b>3,461</b>  | <b>3,940</b>  | <b>14,250</b> | <b>15,014</b> | <b>3,930</b>  |              |
| Change (%)                  | 42.4          | 28.7          | 21.6          | 85.7          | -13.5         | 4.4           | -8.4          | 1.1           | 36.3          | 5.4           | 4.0           |              |
| <b>Adj. PAT</b>             | <b>3,150</b>  | <b>3,508</b>  | <b>3,644</b>  | <b>3,958</b>  | <b>3,787</b>  | <b>3,510</b>  | <b>3,468</b>  | <b>3,940</b>  | <b>14,250</b> | <b>13,693</b> | <b>3,930</b>  | <b>-11.8</b> |
| Change (%)                  | 19.0          | 30.9          | 32.3          | 31.4          | 20.2          | 0.1           | -4.8          | -0.5          | 36.3          | -3.9          | 7.8           |              |

E: MOFSL Estimates

## Key Performance Indicators

| Segment Mix                   | FY24          |               |               |               | FY25          |               |               |               | FY24          | FY25E         | Var (%)      |            |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               | 3QE          |            |
| Auto                          | 11,163        | 12,253        | 11,880        | 11,737        | 11,375        | 11,087        | 10,673        | 10,988        | 47,033        | 44,123        | 11,225       | -4.9       |
| Growth (%)                    | 15.9          | 17.0          | 8.1           | 4.5           | 1.9           | -9.5          | -10.2         | -6.4          | 10.7          | -6.2          | -5.5         |            |
| Contribution (%)              | 52.5          | 54.5          | 52.5          | 50.4          | 48.7          | 49.3          | 50.9          | 47.5          | 52.4          | 49.1          | 46.6         |            |
| Non-Auto                      | 10,110        | 10,241        | 10,754        | 11,549        | 12,006        | 11,380        | 10,287        | 12,124        | 42,654        | 45,797        | 12,888       | -20.2      |
| Growth (%)                    | 26.9          | 25.4          | 26.0          | 32.1          | 18.8          | 11.1          | -4.3          | 5.0           | 48.7          | 7.4           | 19.8         |            |
| Contribution (%)              | 47.5          | 45.5          | 47.5          | 49.6          | 51.3          | 50.7          | 49.1          | 52.5          | 47.6          | 50.9          | 53.4         |            |
| <b>Net operating revenues</b> | <b>21,273</b> | <b>22,494</b> | <b>22,634</b> | <b>23,286</b> | <b>23,381</b> | <b>22,467</b> | <b>20,960</b> | <b>23,111</b> | <b>89,686</b> | <b>89,896</b> | <b>24113</b> | <b>-13</b> |
| Change (%)                    | 20.9          | 20.7          | 15.9          | 16.6          | 9.9           | -0.1          | -7.4          | -0.8          | 18.4          | 0.2           | 6.5          | 0.0        |
| RM/Sales %                    | 44.3          | 43.3          | 41.9          | 41.4          | 41.8          | 40.8          | 40.1          | 40.5          | 42.7          | 40.8          | 42.0         | -190bp     |
| Staff Cost (% of sales)       | 7.0           | 6.7           | 6.7           | 6.5           | 7.0           | 7.2           | 7.6           | 7.0           | 6.7           | 7.2           | 7.0          | 60bp       |
| Other Cost (% of sales)       | 22.7          | 22.8          | 22.9          | 24.0          | 23.4          | 24.2          | 23.3          | 23.2          | 23.0          | 23.5          | 23.2         | 10bp       |
| Gross Margin (%)              | 55.7          | 56.7          | 58.1          | 58.6          | 58.2          | 59.2          | 59.9          | 59.5          | 57.3          | 59.2          | 58.0         | 190bp      |
| EBITDA Margins (%)            | 26.0          | 27.2          | 28.5          | 28.1          | 27.9          | 27.8          | 29.1          | 29.2          | 27.6          | 28.5          | 27.8         | 130bp      |
| EBIT Margins (%)              | 20.9          | 22.1          | 23.5          | 23.5          | 23.2          | 23.0          | 23.8          | 24.3          | 22.6          | 23.0          | 23.2         | 70bp       |

E:MOFSL Estimates

## S/A Quarterly

(INR m)

| S/A Quarterly               | FY24          |               |               |               | FY25          |               |               |               | FY24          | FY25E         | Variance      |              |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
|                             | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               | 3QE           | (%)          |
| <b>Net operating income</b> | <b>21,273</b> | <b>22,494</b> | <b>22,634</b> | <b>23,286</b> | <b>23,381</b> | <b>22,467</b> | <b>20,960</b> | <b>23,111</b> | <b>89,686</b> | <b>89,896</b> | <b>24,113</b> | <b>-13.1</b> |
| Change (%)                  | 20.9          | 20.7          | 15.9          | 16.6          | 9.9           | -0.1          | -7.4          | -0.8          | 18.4          | 0.2           | 6.5           |              |
| <b>EBITDA</b>               | <b>5,534</b>  | <b>6,111</b>  | <b>6,453</b>  | <b>6,541</b>  | <b>6,515</b>  | <b>6,255</b>  | <b>6,099</b>  | <b>6,758</b>  | <b>24,777</b> | <b>25,603</b> | <b>6,703</b>  | <b>-9.0</b>  |
| EBITDA Margins (%)          | 26.0          | 27.2          | 28.5          | 28.1          | 27.9          | 27.8          | 29.1          | 29.2          | 27.6          | 28.5          | 27.8          |              |
| Non-Operating Income        | 472           | 424           | 346           | 382           | 446           | 348           | 314           | 353           | 1,623         | 1,461         | 400           |              |
| Interest                    | 705           | 726           | 809           | 634           | 702           | 635           | 573           | 580           | 2,874         | 2,490         | 600           |              |
| Depreciation                | 1089          | 1128          | 1124          | 1079          | 1094          | 1083          | 1104          | 1139          | 4,420         | 4,421         | 1120          |              |
| EO Exp / (Inc)              | 47            | 63            | -179          | 82            | 1,457         | -135          | 9             | 0             | 154           |               | 0             |              |
| <b>PBT after EO items</b>   | <b>4,165</b>  | <b>4,616</b>  | <b>5,044</b>  | <b>5,127</b>  | <b>3,708</b>  | <b>5,019</b>  | <b>4,727</b>  | <b>5,392</b>  | <b>18,952</b> | <b>20,154</b> | <b>5,383</b>  |              |
| Tax                         | 1050          | 1156          | 1266          | 1231          | 1014          | 1407          | 1266          | 1452          | 4,703         | 5,139         | 1454          |              |
| Eff. Tax Rate (%)           | 25.2          | 25.0          | 25.1          | 24.0          | 27.3          | 28.0          | 26.8          | 26.9          | 24.8          | 25.5          | 27.0          |              |
| <b>Rep. PAT</b>             | <b>3,115</b>  | <b>3,460</b>  | <b>3,778</b>  | <b>3,897</b>  | <b>2,694</b>  | <b>3,612</b>  | <b>3,461</b>  | <b>3,940</b>  | <b>14,250</b> | <b>15,014</b> | <b>3,930</b>  |              |
| Change (%)                  | 42.4          | 28.7          | 21.6          | 85.7          | -13.5         | 4.4           | -8.4          | 1.1           | 36.3          | 5.4           | 4.0           |              |
| <b>Adj. PAT</b>             | <b>3,150</b>  | <b>3,508</b>  | <b>3,644</b>  | <b>3,958</b>  | <b>3,787</b>  | <b>3,510</b>  | <b>3,468</b>  | <b>3,940</b>  | <b>14,250</b> | <b>13,693</b> | <b>3,930</b>  | <b>-11.8</b> |
| Change (%)                  | 19.0          | 30.9          | 32.3          | 31.4          | 20.2          | 0.1           | -4.8          | -0.5          | 36.3          | -3.9          | 7.8           |              |

E: MOFSL Estimates

## Key Performance Indicators

| Segment Mix                   | FY24          |               |               |               | FY25          |               |               |               | FY24          | FY25E         | Var (%)      |            |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|------------|
|                               | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               | 3QE          |            |
| Auto                          | 11,163        | 12,253        | 11,880        | 11,737        | 11,375        | 11,087        | 10,673        | 10,988        | 47,033        | 44,123        | 11,225       | -4.9       |
| Growth (%)                    | 15.9          | 17.0          | 8.1           | 4.5           | 1.9           | -9.5          | -10.2         | -6.4          | 10.7          | -6.2          | -5.5         |            |
| Contribution (%)              | 52.5          | 54.5          | 52.5          | 50.4          | 48.7          | 49.3          | 50.9          | 47.5          | 52.4          | 49.1          | 46.6         |            |
| Non-Auto                      | 10,110        | 10,241        | 10,754        | 11,549        | 12,006        | 11,380        | 10,287        | 12,124        | 42,654        | 45,797        | 12,888       | -20.2      |
| Growth (%)                    | 26.9          | 25.4          | 26.0          | 32.1          | 18.8          | 11.1          | -4.3          | 5.0           | 48.7          | 7.4           | 19.8         |            |
| Contribution (%)              | 47.5          | 45.5          | 47.5          | 49.6          | 51.3          | 50.7          | 49.1          | 52.5          | 47.6          | 50.9          | 53.4         |            |
| <b>Net operating revenues</b> | <b>21,273</b> | <b>22,494</b> | <b>22,634</b> | <b>23,286</b> | <b>23,381</b> | <b>22,467</b> | <b>20,960</b> | <b>23,111</b> | <b>89,686</b> | <b>89,896</b> | <b>24113</b> | <b>-13</b> |
| Change (%)                    | 20.9          | 20.7          | 15.9          | 16.6          | 9.9           | -0.1          | -7.4          | -0.8          | 18.4          | 0.2           | 6.5          | 0.0        |
| RM/Sales %                    | 44.3          | 43.3          | 41.9          | 41.4          | 41.8          | 40.8          | 40.1          | 40.5          | 42.7          | 40.8          | 42.0         | -190bp     |
| Staff Cost (% of sales)       | 7.0           | 6.7           | 6.7           | 6.5           | 7.0           | 7.2           | 7.6           | 7.0           | 6.7           | 7.2           | 7.0          | 60bp       |
| Other Cost (% of sales)       | 22.7          | 22.8          | 22.9          | 24.0          | 23.4          | 24.2          | 23.3          | 23.2          | 23.0          | 23.5          | 23.2         | 10bp       |
| Gross Margin (%)              | 55.7          | 56.7          | 58.1          | 58.6          | 58.2          | 59.2          | 59.9          | 59.5          | 57.3          | 59.2          | 58.0         | 190bp      |
| EBITDA Margins (%)            | 26.0          | 27.2          | 28.5          | 28.1          | 27.9          | 27.8          | 29.1          | 29.2          | 27.6          | 28.5          | 27.8         | 130bp      |
| EBIT Margins (%)              | 20.9          | 22.1          | 23.5          | 23.5          | 23.2          | 23.0          | 23.8          | 24.3          | 22.6          | 23.0          | 23.2         | 70bp       |

E:MOFSL Estimates



## Highlights from the management interaction

### India business trends and outlook

- The Indian CV market is expected to post slightly better growth in 4Q QoQ while FY26 is likely to be flat.
- The US Class8 CV demand is projected to grow 10% in FY26, largely back-ended. Uncertainty remains regarding potential tariff changes.
- In domestic PVs, BHFC has seen strong growth in 3Q and the momentum is likely to continue on the back of order wins from new customers. Increasing localization is benefiting BHFC, with rising supplies of engine, transmission, and chassis components.
- Capex has slowed in infrastructure and industrial capital formation, particularly in power plants and water projects. Large-scale projects from previous years have been completed, while new mega projects are yet to commence. This is likely to lead to a slowdown in the domestic non-auto segment in the near term.
- Export industrial revenue grew ~7-8% YoY and was largely driven by strong growth from oil & gas and aerospace segments.
- Its aerospace segment continues to be a key growth driver with a quarterly revenue run-rate of INR5-6b currently and is expected to surpass triple digits per quarter in FY26. BHFC has approved new investments in landing gear machining and high-precision ring mill forgings. This facility is likely to commence production by FY27 end and the segmental revenues can potentially double from there, post this.
- Oil & gas revenue grew ~60-70% YoY in 3Q, over a low base of last year. This sector can potentially see strong growth going forward which is contingent on the development of pipeline infrastructure in the US.
- The standalone business won orders worth about INR7.83b in this quarter
- Standalone capex for FY26 is estimated at ~INR3b, with an additional INR2-2.5b allocated for Indian subsidiaries. Investments will be concentrated on India's business, including the new aerospace facility.

### Update on Defense

- Defense revenue was INR3.4b and the slower ramp-up was due to the lumpy nature of the business. For 9M, defense revenue grew 49% YoY to INR14.9b. This segment has seen order wins of INR1b in 3Q with outstanding orders of INR57b.
- The domestic ATAG order is likely to be awarded in the next 3-4 months. However, serial production will commence 15-18 months from now.
- A new MoU with L3 Harris opens opportunities in C4I (Command, Control, Communications, Computers, and Intelligence) for defense electronics.

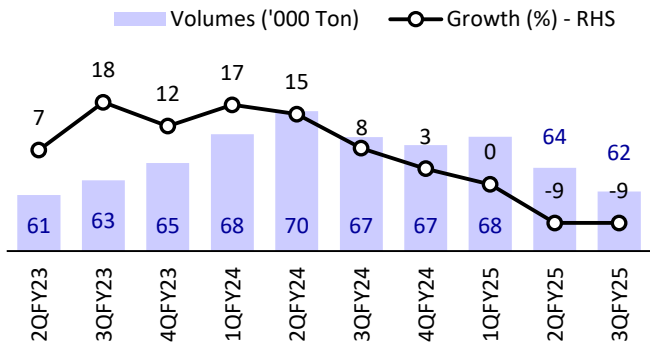
### Update on Overseas subsidiaries

- Weak demand in Europe and the US persists due to industry transition to EVs and economic uncertainty. EU operations posted INR100m EBITDA, while the US operations reduced losses to INR60m (with 60% utilization). Margin improvement in the US has been driven by cost reductions and efficiency gains.
- Demand softness in Europe and customer-specific challenges impacted performance. While efforts are underway to reduce these losses, weak performance is likely to be sustained in the coming quarters as well given weak demand. The company is conducting a comprehensive review of its European manufacturing footprint, with a clearer direction expected in six months.
- BHFC's aluminum forging business remains positive as it is tech-agnostic.

**Update on JS AutoCast**

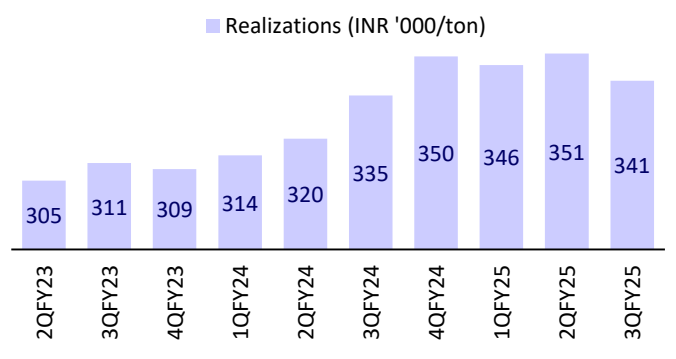
- JSA reported a 20% YoY revenue growth in 3Q, reaching INR1.66b.
- On the back of strong new order wins, management is confident that this business can ramp up to INR10b in revenues within the next 6-8 quarters. They are also confident of improving margins in this business by 250-300bp from here and would be driven by operating leverage, cost reduction, and an improved product mix.

**Exhibit 1: Volume trend**



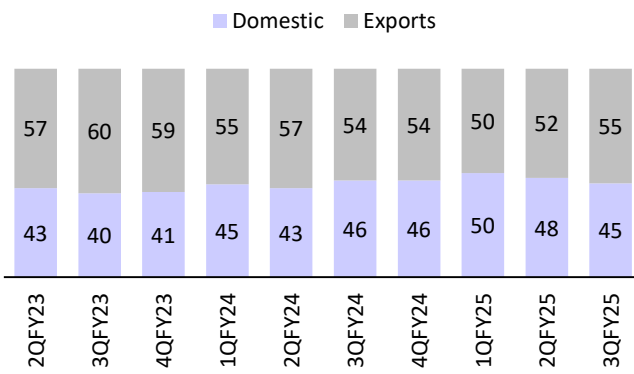
Source: Company, MOFSL

**Exhibit 2: Trend in realizations**



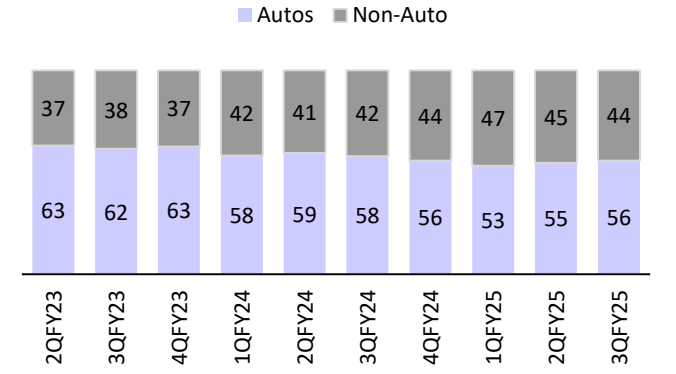
Source: Company, MOFSL

**Exhibit 3: Market mix trend**



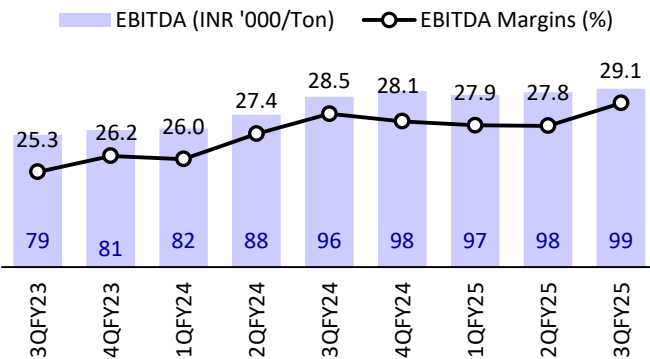
Source: Company, MOFSL

**Exhibit 4: Trend in product mix**



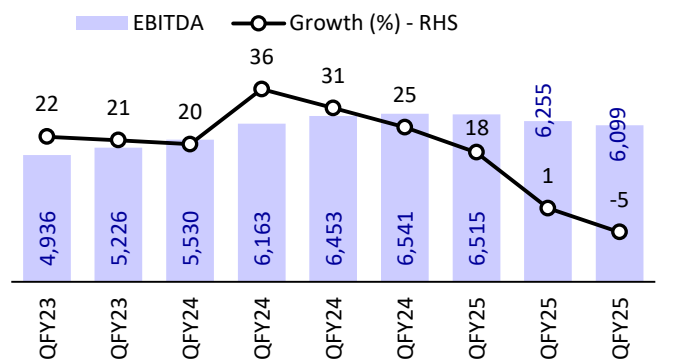
Source: Company, MOFSL

**Exhibit 5: Trend in EBITDA margin**



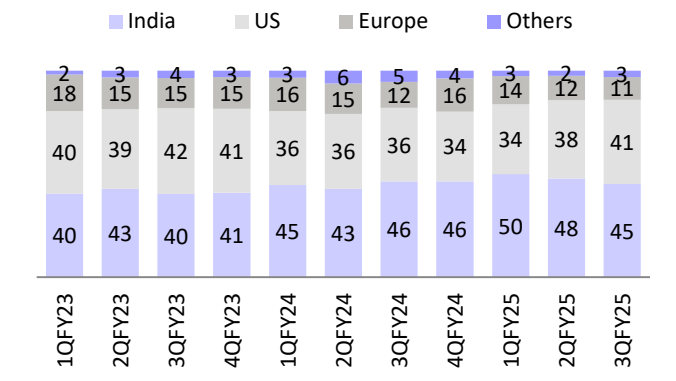
Source: Company, MOFSL

**Exhibit 6: EBITDA growth trend**



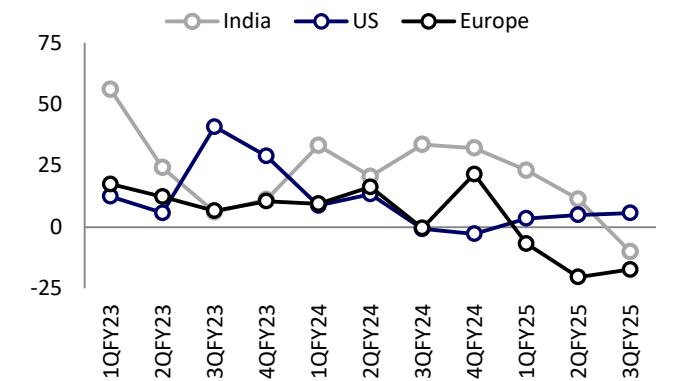
Source: Company, MOFSL

**Exhibit 7: Standalone revenue breakup %**



Source: Company, MOFSL

**Exhibit 8: Standalone revenue growth % across geographies**



Source: Company, MOFSL

**Valuation and view**

**Continued focus on de-risking the business and increasing value additions**

Over the last decade, BHFC has broadened its revenue stream by entering new segments (non-Auto) and markets across the globe, resulting in a decline in the share of the Auto business to ~55% in 9MFY25 from ~80% in FY07. It has increased value additions by focusing on machined components, whose contribution grew ~50%, boosting realizations and margin. After having invested for over 10 years, it is now seeing meaningful traction in the defense business. It is also ramping up the AI mix in its overseas subsidiaries. Further, it has set up a dedicated team to work on advanced EV components, which it targets to materially ramp up in a couple of years. These diversification initiatives have helped reduce cyclicality in BHFC revenues over the last few years.

**Auto: PV exports hit by Europe slowdown, CVs likely to remain steady**

In domestic CVs, management expects a marginal growth in Q4 on QoQ basis but FY26 is expected to remain flattish. The US Class8 CV demand is projected to grow 10% in FY26, largely back-ended. Uncertainty remains regarding potential tariff changes. The PV space is a focus area as it offers an opportunity size 4x that of CVs. To tap this opportunity, the management is increasing customer penetration and moving up the value chain. BHFC continues to see strong traction in PV exports to its key customers. However, while it has a strong order book in PV exports, this is currently being impacted by a marked slowdown in Europe. Even in domestic PVs, it is now seeing a strong demand for powertrain components led by new order wins from new customers led by localization initiatives.

**Defense to be the key growth driver over FY25-27E**

Over the last decade, BHFC has developed new frontiers for growing beyond its core business, with investments in capabilities and capacities in place. Some of these new businesses offer huge potential in the long term and the scope to drive the next phase of evolution for the company. BHFC has ramped up its defense business to INR15.6b in FY24, and so far in 9MFY25, the business has reported a growth of 49% YoY. On the back of strong demand, its defense order book has sharply scaled up to INR57b to be executable over the next 3 to 4 years. This does not include the domestic ATAG order, where BHFC has already qualified with another partner, which is to the tune of INR45b and awards are likely to be awarded in the next 3-4 months. Thus, defense business is likely to be the key growth driver in the coming years. However, given the lumpy nature of the business, it is likely to see quarterly volatility in execution.

### Ramp-up in Industrial and Aerospace domains to fuel growth

BHFC sees a tremendous opportunity in the industrial space (renewable, off-highway, and others), and it has invested in expanding its capacities (Sanghvi Forgings) and capabilities (JS Autocast) through acquisitions in the last 1.0-1.5 years. BHFC has a relatively smaller contribution from renewable energy and the industrial segment in India. JS Auto Cast has scaled up very well to INR5.7b in revenues for FY24, with a margin of 16.5%. During 9MFY25, JSA won orders worth INR1.83b benefiting from the positive momentum built around Indian manufacturing. This business is expected to sustain its growth momentum in the coming years as well. Its aerospace segment continues to be a key growth driver with a quarterly revenue run-rate of INR5-6b currently and is expected to surpass triple digits per quarter in FY26. Aerospace is on track to witness strong growth over the coming 3-4 years.

### Improvement in subsidiary performance lags expectations

Overseas subsidiaries continue to bleed, with its European subsidiary posting a 9MFY25 PBT loss of ~INR1.97b (from a loss of INR2b in FY24) and its US subsidiary posting a loss of INR1.7b (from a loss of INR2.4b in FY24). Overseas subsidiaries continue to remain a drag on BHFC’s standalone performance and have been the key concern for the company. The EV subsidiary, KPTL, is also now dragging down BHFC’s performance with a loss of INR220m in 9MFY25. Given the ongoing uncertainties, the company is conducting a comprehensive review of its European manufacturing footprint, with a clearer direction expected in six months.

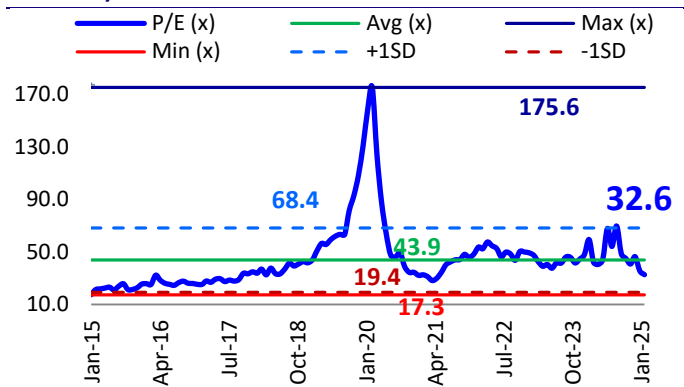
### Valuation and view

We cut our FY25E/FY26E EPS by 25/17% to factor in the weak outlook in major segments, including CVs, slower-than-expected defense ramp up and also continued weakness in overseas subsidiary performance. We estimate a CAGR of 15%/20%/46% in consolidated revenue/EBITDA/PAT over FY25-27. The stock appears fairly valued at the current valuations of 33.9x/25.0x FY26E/FY27E consolidated EPS. We **reiterate our Neutral rating** with a TP of INR1,155 (based on 28x Dec’26E consolidated EPS).

#### Our revised forecasts (Consolidated)

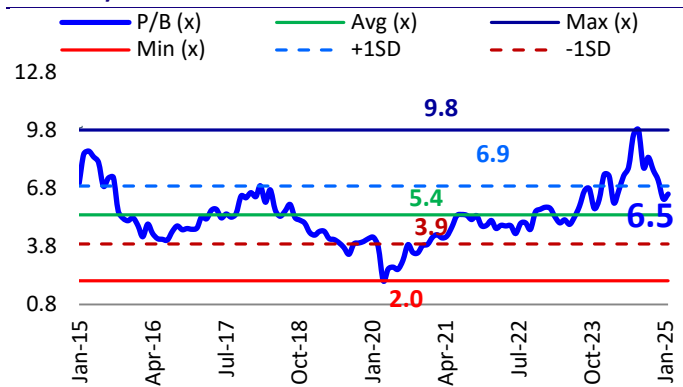
| (INR m)    | FY25E    |          |         | FY26E    |          |         |
|------------|----------|----------|---------|----------|----------|---------|
|            | Rev      | Old      | Chg (%) | Rev      | Old      | Chg (%) |
| Net Sales  | 1,50,260 | 1,63,924 | -8.3    | 1,67,206 | 1,90,585 | -12.3   |
| EBITDA (%) | 18.0     | 18.0     | 0bp     | 19.1     | 19.2     | -10bp   |
| Net Profit | 9,914    | 12,986   | -23.7   | 15,583   | 18,381   | -15.2   |
| EPS (INR)  | 21.0     | 28.0     | -24.9   | 32.6     | 39.5     | -17.4   |

#### BHFC’s P/E trend



Source: Company, MOFSL

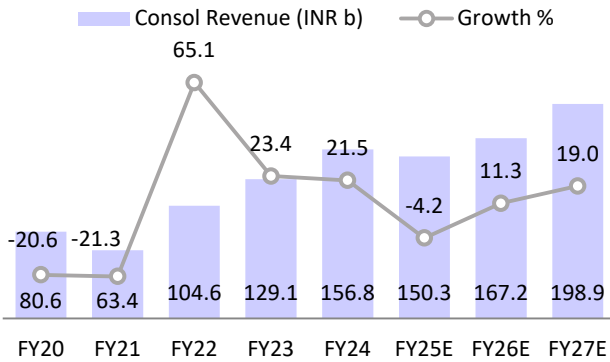
#### BHFC’s P/B trend



Source: Company, MOFSL

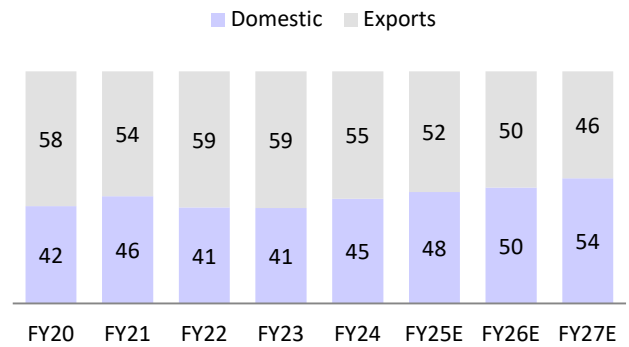
Story in charts

Exhibit 9: Consol. revenue mix trend



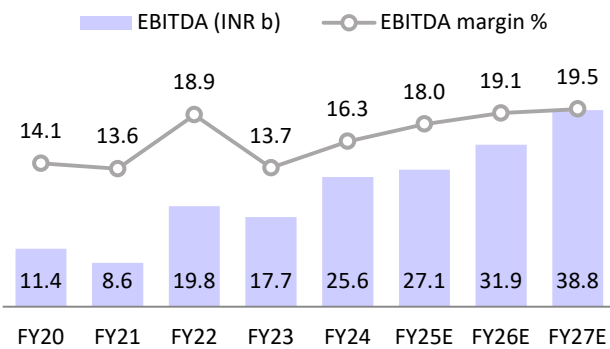
Source: Company, MOFSL

Exhibit 10: Trend in geography mix %



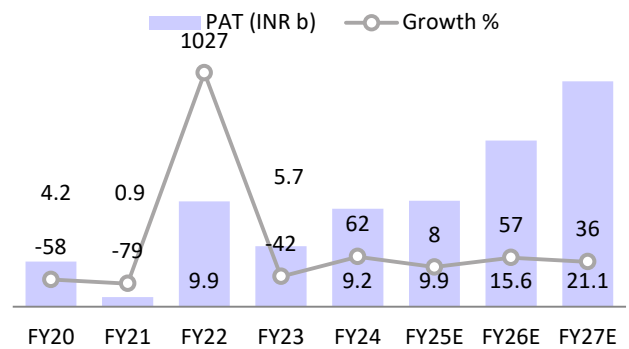
Source: Company, MOFSL

Exhibit 11: Trends in EBITDA and EBITDA margin



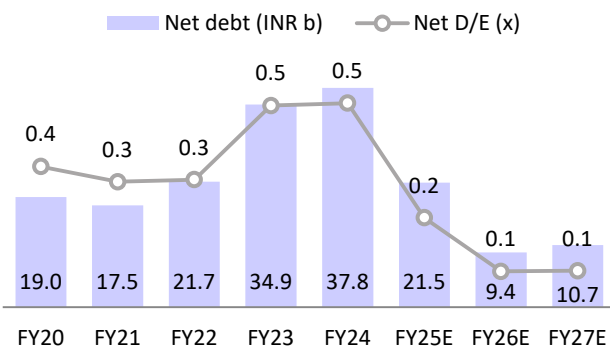
Source: Company, MOFSL

Exhibit 12: PAT and growth over the years



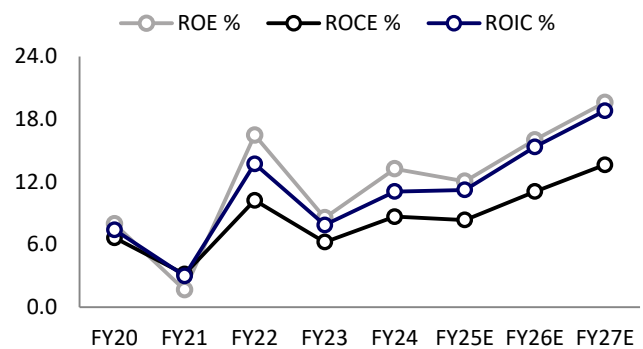
Source: Company, MOFSL

Exhibit 13: Net debt and Net Debt to Equity trends



Source: Company, MOFSL

Exhibit 14: Return ratio trend over the years



Source: Company, MOFSL



## Financials and valuations

| Consolidated - Income Statement |               |               |                 |                 |                 |                 |                 | (INR m)         |
|---------------------------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March                       | FY20          | FY21          | FY22            | FY23            | FY24            | FY25E           | FY26E           | FY27E           |
| <b>Net Sales</b>                | <b>80,558</b> | <b>63,362</b> | <b>1,04,611</b> | <b>1,29,103</b> | <b>1,56,821</b> | <b>1,50,260</b> | <b>1,67,206</b> | <b>1,98,948</b> |
| Change (%)                      | -20.6         | -21.3         | 65.1            | 23.4            | 21.5            | -4.2            | 11.3            | 19.0            |
| <b>EBITDA</b>                   | <b>11,389</b> | <b>8,617</b>  | <b>19,803</b>   | <b>17,676</b>   | <b>25,579</b>   | <b>27,063</b>   | <b>31,936</b>   | <b>38,795</b>   |
| Margin (%)                      | 14.1          | 13.6          | 18.9            | 13.7            | 16.3            | 18.0            | 19.1            | 19.5            |
| Depreciation                    | 5,477         | 6,122         | 7,303           | 7,356           | 8,482           | 8,709           | 9,319           | 9,785           |
| <b>EBIT</b>                     | <b>5,912</b>  | <b>2,495</b>  | <b>12,500</b>   | <b>10,320</b>   | <b>17,097</b>   | <b>18,354</b>   | <b>22,617</b>   | <b>29,010</b>   |
| Int. and Finance Charges        | 1,713         | 1,077         | 1,604           | 2,986           | 4,912           | 4,276           | 2,565           | 1,283           |
| Other Income - Rec.             | 1,879         | 1,689         | 1,959           | 1,729           | 2,274           | 1,938           | 2,131           | 2,345           |
| <b>PBT bef. EO Exp.</b>         | <b>6,077</b>  | <b>3,107</b>  | <b>12,855</b>   | <b>9,062</b>    | <b>14,460</b>   | <b>16,016</b>   | <b>22,183</b>   | <b>30,072</b>   |
| EO Expense/(Income)             | 1,031         | 3,062         | -1,280          | -458            | 123             | 1,518           | 0               | 0               |
| <b>PBT after EO Exp.</b>        | <b>5,046</b>  | <b>45</b>     | <b>14,135</b>   | <b>9,520</b>    | <b>14,337</b>   | <b>14,498</b>   | <b>22,183</b>   | <b>30,072</b>   |
| Current Tax                     | 1,125         | 1,015         | 3,035           | 3,186           | 5,288           | 5,498           | 6,655           | 9,022           |
| Tax Rate (%)                    | 22.3          | 2276.6        | 21.5            | 33.5            | 36.9            | 37.9            | 30.0            | 30.0            |
| <b>Reported PAT</b>             | <b>3,921</b>  | <b>-971</b>   | <b>11,101</b>   | <b>6,334</b>    | <b>9,049</b>    | <b>9,000</b>    | <b>15,528</b>   | <b>21,050</b>   |
| MI & Profit/Loss of Asso        | 420           | 297           | 330             | 334             | -53             | 29              | -55             | -75             |
| <b>Adj PAT</b>                  | <b>4,223</b>  | <b>876</b>    | <b>9,875</b>    | <b>5,680</b>    | <b>9,188</b>    | <b>9,914</b>    | <b>15,583</b>   | <b>21,125</b>   |

| Consolidated - Balance Sheet        |               |                 |                 |                 |                 |                 |                 | (INR m)         |
|-------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March                           | FY20          | FY21            | FY22            | FY23            | FY24            | FY25E           | FY26E           | FY27E           |
| Equity Share Capital                | 931           | 931             | 931             | 931             | 931             | 956             | 956             | 956             |
| Total Reserves                      | 51,266        | 53,219          | 64,775          | 66,124          | 70,771          | 91,914          | 1,00,803        | 1,12,844        |
| <b>Net Worth</b>                    | <b>52,197</b> | <b>54,150</b>   | <b>65,707</b>   | <b>67,055</b>   | <b>71,702</b>   | <b>92,870</b>   | <b>1,01,760</b> | <b>1,13,800</b> |
| Minority Interest                   | 320           | 317             | 561             | 361             | -49             | -49             | -49             | -49             |
| Deferred Liabilities                | 507           | 1,445           | 1,718           | 658             | 39              | 39              | 39              | 39              |
| Total Loans                         | 38,784        | 45,798          | 56,545          | 68,523          | 75,221          | 62,221          | 56,221          | 50,221          |
| <b>Capital Employed</b>             | <b>91,807</b> | <b>1,01,710</b> | <b>1,24,531</b> | <b>1,36,597</b> | <b>1,46,913</b> | <b>1,55,081</b> | <b>1,57,970</b> | <b>1,64,011</b> |
| Gross Block                         | 95,553        | 1,09,197        | 81,087          | 98,375          | 1,07,096        | 1,17,096        | 1,25,096        | 1,33,096        |
| Less: Accum. Deprn.                 | 55,902        | 62,024          | 32,896          | 39,723          | 46,965          | 55,674          | 64,993          | 74,778          |
| <b>Net Fixed Assets</b>             | <b>40,020</b> | <b>47,497</b>   | <b>48,697</b>   | <b>61,606</b>   | <b>63,091</b>   | <b>64,382</b>   | <b>63,063</b>   | <b>61,278</b>   |
| Capital WIP                         | 11,427        | 9,001           | 11,248          | 7,012           | 9,912           | 9,912           | 9,912           | 9,912           |
| <b>Total Investments</b>            | <b>16,180</b> | <b>26,070</b>   | <b>26,040</b>   | <b>25,691</b>   | <b>18,493</b>   | <b>28,493</b>   | <b>31,493</b>   | <b>34,493</b>   |
| <b>Curr. Assets, Loans&amp;Adv.</b> | <b>47,197</b> | <b>48,309</b>   | <b>68,934</b>   | <b>88,038</b>   | <b>1,00,344</b> | <b>97,390</b>   | <b>1,02,214</b> | <b>1,12,848</b> |
| Inventory                           | 17,347        | 17,939          | 27,105          | 31,263          | 32,161          | 30,875          | 34,357          | 40,880          |
| Account Receivables                 | 14,938        | 14,096          | 21,736          | 30,988          | 31,672          | 30,875          | 34,357          | 40,880          |
| Cash and Bank Balance               | 5,751         | 4,729           | 6,030           | 10,395          | 16,899          | 15,060          | 11,904          | 8,426           |
| Loans and Advances                  | 9,161         | 11,545          | 14,063          | 15,392          | 19,612          | 20,579          | 21,595          | 22,662          |
| <b>Curr. Liability &amp; Prov.</b>  | <b>23,017</b> | <b>29,167</b>   | <b>30,387</b>   | <b>45,749</b>   | <b>44,927</b>   | <b>45,096</b>   | <b>48,711</b>   | <b>54,520</b>   |
| Creditors                           | 10,309        | 12,068          | 16,314          | 21,513          | 22,621          | 21,675          | 24,119          | 28,698          |
| Other Current Liabilities           | 10,000        | 14,093          | 11,396          | 21,923          | 18,999          | 19,949          | 20,946          | 21,993          |
| Provisions                          | 2,707         | 3,006           | 2,677           | 2,313           | 3,307           | 3,472           | 3,646           | 3,828           |
| <b>Net Current Assets</b>           | <b>24,181</b> | <b>19,142</b>   | <b>38,546</b>   | <b>42,288</b>   | <b>55,417</b>   | <b>52,294</b>   | <b>53,503</b>   | <b>58,328</b>   |
| <b>Appl. of Funds</b>               | <b>91,807</b> | <b>1,01,710</b> | <b>1,24,531</b> | <b>1,36,597</b> | <b>1,46,913</b> | <b>1,55,081</b> | <b>1,57,970</b> | <b>1,64,011</b> |

E: MOFSL Estimates

## Financials and valuations

### Ratios

| Y/E March                     | FY20       | FY21       | FY22        | FY23        | FY24        | FY25E       | FY26E       | FY27E       |
|-------------------------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Basic (INR)</b>            |            |            |             |             |             |             |             |             |
| <b>EPS</b>                    | <b>9.1</b> | <b>1.9</b> | <b>21.2</b> | <b>12.2</b> | <b>19.7</b> | <b>21.0</b> | <b>32.6</b> | <b>44.2</b> |
| Cash EPS                      | 20.8       | 15.0       | 36.9        | 28.0        | 37.9        | 38.9        | 52.1        | 64.6        |
| BV/Share                      | 112.1      | 116.3      | 141.1       | 144.0       | 154.0       | 194.2       | 212.8       | 238.0       |
| DPS                           | 3.5        | 2.0        | 5.5         | 5.5         | 9.0         | 9.0         | 14.0        | 19.0        |
| Payout (%)                    | 50.1       | -96.0      | 23.1        | 40.4        | 46.3        | 47.8        | 43.1        | 43.2        |
| <b>Valuation (x)</b>          |            |            |             |             |             |             |             |             |
| P/E                           | 120.6      | 581.3      | 51.6        | 89.7        | 55.4        | 52.1        | 33.6        | 24.8        |
| Cash P/E                      | 52.5       | 72.8       | 29.7        | 39.1        | 28.8        | 28.1        | 21.0        | 16.9        |
| P/BV                          | 9.8        | 9.4        | 7.8         | 7.6         | 7.1         | 5.6         | 5.1         | 4.6         |
| EV/Sales                      | 6.9        | 8.3        | 5.1         | 4.2         | 3.5         | 3.6         | 3.2         | 2.7         |
| EV/EBITDA                     | 46.2       | 60.9       | 27.0        | 30.7        | 21.5        | 20.0        | 16.8        | 13.7        |
| Dividend Yield (%)            | 0.3        | 0.2        | 0.5         | 0.5         | 0.8         | 0.8         | 1.3         | 1.7         |
| FCF per share                 | 17.4       | 0.0        | -17.9       | 0.0         | 4.1         | 27.7        | 31.5        | 33.1        |
| <b>Return Ratios (%)</b>      |            |            |             |             |             |             |             |             |
| RoE                           | 8.0        | 1.6        | 16.5        | 8.6         | 13.2        | 12.0        | 16.0        | 19.6        |
| RoCE (Post-tax)               | 6.6        | 3.2        | 10.2        | 6.2         | 8.7         | 8.3         | 11.1        | 13.6        |
| RoIC                          | 7.4        | 3.0        | 13.7        | 7.9         | 11.1        | 11.2        | 15.4        | 18.8        |
| <b>Working Capital Ratios</b> |            |            |             |             |             |             |             |             |
| Fixed Asset Turnover (x)      | 0.8        | 0.6        | 1.3         | 1.3         | 1.5         | 1.3         | 1.3         | 1.5         |
| Inventory (Days)              | 79         | 103        | 95          | 88          | 75          | 75          | 75          | 75          |
| Debtor (Days)                 | 68         | 81         | 76          | 88          | 74          | 75          | 75          | 75          |
| Creditor (Days)               | 47         | 70         | 57          | 61          | 53          | 53          | 53          | 53          |
| Working Capital (Days)        | 84         | 83         | 113         | 90          | 90          | 90          | 91          | 92          |
| <b>Leverage Ratio (x)</b>     |            |            |             |             |             |             |             |             |
| Net Debt/Equity               | 0.4        | 0.3        | 0.3         | 0.5         | 0.5         | 0.2         | 0.1         | 0.1         |

### Consolidated - Cash Flow Statement

(INR m)

| Y/E March                        | FY20           | FY21           | FY22           | FY23           | FY24          | FY25E          | FY26E          | FY27E          |
|----------------------------------|----------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|
| Operating PBT                    | 5,912          | 2,495          | 12,500         | 10,320         | 17,097        | 18,354         | 22,617         | 29,010         |
| Depreciation                     | 5,477          | 6,122          | 7,303          | 7,356          | 8,482         | 8,709          | 9,319          | 9,785          |
| Other income                     | 1,900          | 1,686          | 2,203          | 1,529          | 1,865         | 1,938          | 2,131          | 2,345          |
| Direct Taxes Paid                | -2,681         | -77            | -2,762         | -4,246         | -5,907        | -5,498         | -6,655         | -9,022         |
| (Inc)/Dec in WC                  | 10,876         | 4,016          | -18,103        | 623            | -6,624        | 1,283          | -4,364         | -8,303         |
| <b>CF from Operations</b>        | <b>21,485</b>  | <b>14,243</b>  | <b>1,142</b>   | <b>15,581</b>  | <b>14,912</b> | <b>24,786</b>  | <b>23,048</b>  | <b>23,815</b>  |
| EO Expense                       | -1,031         | -3,062         | 1,280          | 458            | -123          | -1,518         | 0              | 0              |
| <b>CF from Operating incl EO</b> | <b>20,454</b>  | <b>11,180</b>  | <b>2,422</b>   | <b>16,039</b>  | <b>14,789</b> | <b>23,268</b>  | <b>23,048</b>  | <b>23,815</b>  |
| (inc)/dec in FA                  | -12,371        | -11,173        | -10,750        | -16,029        | -12,857       | -10,000        | -8,000         | -8,000         |
| <b>Free Cash Flow</b>            | <b>8,083</b>   | <b>8</b>       | <b>-8,328</b>  | <b>10</b>      | <b>1,932</b>  | <b>13,268</b>  | <b>15,048</b>  | <b>15,815</b>  |
| (Pur)/Sale of Investments        | -944           | -9,890         | 30             | 349            | 7,198         | -10,000        | -3,000         | -3,000         |
| <b>CF from Investments</b>       | <b>-13,315</b> | <b>-21,063</b> | <b>-10,720</b> | <b>-15,680</b> | <b>-5,659</b> | <b>-20,000</b> | <b>-11,000</b> | <b>-11,000</b> |
| Issue of Shares                  | -3,519         | 3,855          | 3,017          | -2,425         | -211          | 16,471         | 55             | 75             |
| Inc/(Dec) in Debt                | 1,055          | 7,014          | 10,748         | 11,978         | 6,697         | -13,000        | -6,000         | -6,000         |
| Interest Paid                    | -1,713         | -1,077         | -1,604         | -2,986         | -4,912        | -4,276         | -2,565         | -1,283         |
| Dividend Paid                    | -1,965         | -931           | -2,561         | -2,561         | -4,191        | -4,303         | -6,694         | -9,085         |
| <b>CF from Fin. Activity</b>     | <b>-6,143</b>  | <b>8,860</b>   | <b>9,599</b>   | <b>4,006</b>   | <b>-2,616</b> | <b>-5,108</b>  | <b>-15,204</b> | <b>-16,292</b> |
| <b>Inc/Dec of Cash</b>           | <b>996</b>     | <b>-1,023</b>  | <b>1,301</b>   | <b>4,365</b>   | <b>6,514</b>  | <b>-1,840</b>  | <b>-3,156</b>  | <b>-3,477</b>  |
| Add: Beginning Balance           | 4,755          | 5,751          | 4,729          | 6,030          | 10,395        | 16,899         | 15,060         | 11,904         |
| <b>Closing Balance</b>           | <b>5,751</b>   | <b>4,728</b>   | <b>6,030</b>   | <b>10,395</b>  | <b>16,909</b> | <b>15,060</b>  | <b>11,904</b>  | <b>8,426</b>   |

E: MOFSL Estimates

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| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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