Bharat Forge | ADD

JM Financial

Beat on all fronts; domestic business to offset weakness in exports

Saksham Kaushal
saksham.kaushal@jmfl.com | Tel: (91 22) 66303019
Nitin Agrawal
nitin.agrawal@jmfl.com | Tel: (91 22) 66303687
Sahil Malik
sahil.malik@jmfl.com | Tel: (91 22) 66301652

In 2QFY26, Bharat Forge's (BHFC) consolidated EBITDA margin stood at 18% (+40bps YoY), 150bps above JMFe due to strong execution in defence and steady performance of overseas subsidiaries. Standalone EBITDA margin expanded 50bps YoY to 28.3% on account of cost reduction activities and favourable product mix. Tariff impact for the quarter stood at INR 240mn. The defence segment's order pipeline remains robust at INR 95bn. While export momentum to the US is likely to remain subdued amid tariff overhang, the management expects ramp up of defence orders, domestic industrial business, and exports to non-US geographies to more than offset the weakness in the US. We raise our FY26E/27E EBITDA margin estimates by 109bps/91bps, translating into EPS increase by 10.9%/10.5%. We revise our rating from HOLD under the previous system to ADD under the new rating framework, with a TP of INR 1,480 at 35x (32x earlier) average FY27E/28E EPS. India-US trade deal to remain a key monitorable.

- **2QFY26 – Consolidated margin above estimates:** BHFC's stand. net sales stood at INR c.19bn (-13% YoY, -8% QoQ). Total tonnage stood at c.56.4kt (-12% YoY, -9% QoQ). Realisation decreased by 2% YoY (+1% QoQ). Reported stand. EBITDA margin was 28.3% (+50bps YoY, +110bps QoQ). Consolidated revenue stood at INR 40bn (+9% YoY, +3% QoQ), 7% above JMFe. EBITDA margin stood at 18% (+40bps YoY, +80bps QoQ), 150bps above JMFe primarily due to strong execution in defence. Consol. EBITDA stood at INR 7.3bn (+12%YoY, +8% QoQ), 17% above JMFe. Consol. PAT stood at INR c. 3bn (+23% YoY, +5% QoQ), 5% above JMFe.

- **Domestic business outlook:** Domestic revenue declined 6% YoY (-2% QoQ) to ~INR 10bn in 2Q. CV revenue grew 1% YoY (-9% QoQ) to INR 2.4bn due to lower production volumes in anticipation of GST rate changes. The government's capex push and an increase in construction and manufacturing activity remain medium-to-long-term growth drivers. PV revenue stood at INR 912mn (-1% YoY, -6% QoQ), owing to the consolidation of the gains seen over last year. The management expects steady performance to continue in medium-term, as vehicle demand is likely to be grow post GST rationalisation. Industrial segment revenue declined 7% YoY (+3% QoQ) to approximately INR 5.9bn. The sequential improvement in the segment was due to the execution of a defence order and good traction for heavy horse-power engines. BHFC has transferred all the defence dedicated assets of BHFC to its wholly owned subsidiary KSSL. BHFC's defence order book stands at ~INR 95bn (domestic + exports) with additional domestic tender worth INR 14bn awaiting conversion. Further, it got defence business worth INR 2.5 bn for underwater systems, a key focus area for KSSL (to be executed in 1 year). The management expects to close more order wins for platforms/ projects they have participated in. Overall, BHFC expects to see a ramp-up in defence revenue, with full-year growth anticipated.

- **Export business outlook – tariff headwinds to linger:** Export revenue declined 20% YoY (-12% QoQ) to INR 9.4bn in 2QFY26. CV segment revenue stood at INR 2.8bn (-45% YoY, -37% QoQ), due to a combination of slow freight growth, weak sentiment and tariff uncertainty weighed on CV demand in North America. PV segment revenue, however, grew 7% YoY (+2% QoQ) to INR 2.95bn. Despite the demand challenges in the US, the YoY growth was primarily led by diversification efforts across geographies and products. Industrial revenue declined approximately 4% YoY (+8% QoQ) to INR 3.6bn, led by mixed performance across segments (construction mining/aerospace showed resilience, however, oil & gas was weak due to weak crude prices). Overall, the management expects 2H to be weak due to challenging demand condition in North America. The tariff impact for the quarter stood at INR 240mn.

Recommendation and Price Target	
Current Reco.	ADD
Previous Reco.	HOLD
Current Price Target (12M)	1,480
Upside/(Downside)	5.6%
Previous Price Target	1,100
Change	34.5%

Key Data – BHFC IN	
Current Market Price	INR1,402
Market cap (bn)	INR670.3/US$7.6
Free Float	53%
Shares in issue (mn)	465.6
Diluted share (mn)	478.1
3-mon avg daily val (mn)	INR1,382.3/US$15.6
52-week range	1,420/919
Sensex/Nifty	83,871/25,695
INR/US$	88.6

Price Performance			
%	1M	6M	12M
Absolute	14.9	20.3	0.3
Relative*	13.0	14.0	-4.9

** To the BSE Sensex*

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	1,56,821	1,51,228	1,68,867	1,89,739	2,11,735
Sales Growth (%)	21.5	-3.6	11.7	12.4	11.6
EBITDA	25,579	26,939	30,523	35,405	41,275
EBITDA Margin (%)	16.3	17.8	18.1	18.7	19.5
Adjusted Net Profit	9,225	10,703	14,792	18,073	22,408
Diluted EPS (INR)	19.8	22.4	30.9	37.8	46.9
Diluted EPS Growth (%)	66.4	13.0	38.2	22.2	24.0
ROIC (%)	9.8	10.0	12.5	14.7	17.0
ROE (%)	13.3	13.0	15.1	16.4	17.7
P/E (x)	70.8	62.6	45.3	37.1	29.9
P/B (x)	9.1	7.2	6.5	5.7	4.9
EV/EBITDA (x)	27.3	25.5	22.2	18.9	15.9
Dividend Yield (%)	0.6	0.4	0.6	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 11/Nov/2025

- **Overseas manufacturing operations:** During 2QFY26, overseas manufacturing subsidiaries revenue stood at ~INR 12.6bn (+11% YoY, -11% QoQ). EBITDA margin at EU operations declined 30bps YoY (+50bps QoQ) to 3.6%. BHFC's review of its EU manufacturing footprint is on track. The US manufacturing operations reported an EBITDA margin contraction of 190bps QoQ to 4.2%. Additionally, the US Aluminium forging plant is ramping-up steadily, operating at 65% utilisation level.

- **Other highlights:** 1) BHFC's standalone gross LT debt reduced QoQ to INR 8bn in 2QFY26 from 10.4bn in 1QFY26. The board has approved debt raise of up to INR 20bn towards organic and inorganic growth. 2) Capex guidance for FY26 stood at INR 5bn and the company is setting up a new dedicated forging and machining facility for aerospace. 3) AAM intergration is on track with consolidation of numbers started this quarter onwards.

Exhibit 1. BHFC (consolidated) - financial performance

Consolidated (INR mn)	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ	Q2FY26E	% A/E
Net Sales	**40,319**	**36,885**	**9.3**	**39,087**	**3.2**	**37,733**	**6.9**
RM	17,674	15,643	13.0	16,962	4.2	16,376	7.9
As a % of sales	43.8	42.4	140bps	43.4	40bps	43.4	40bps
Employee Exp	5,206	4,672	11.4	5,137	1.3	4,717	10.4
As a % of sales	12.9	12.7	20bps	13.1	-20bps	12.5	40bps
Other Costs	10,183	10,097	0.8	10,260	-0.8	10,414	-2.2
As a % of sales	25.3	27.4	-210bps	26.2	-100bps	27.6	-230bps
Expenditure	33,063	30,412	8.7	32,358	2.2	31,507	4.9
EBITDA	**7,257**	**6,473**	**12.1**	**6,729**	**7.8**	**6,226**	**16.6**
EBITDA Margin	**18.0**	**17.5**	**40bps**	**17.2**	**80bps**	**16.5**	**150bps**
Other Income	535	616	-13.2	497	7.6	600	-10.8
Interest	801	1,098	-27.1	822	-2.6	722	10.9
Depreciation	2,409	2,133	12.9	2,261	6.5	1,761	36.8
PBT	**4,582**	**3,858**	**18.8**	**4,143**	**10.6**	**4,343**	5.5
Tax	1,576	1,419	11.0	1,271	23.9	1,520	3.7
Tax rate (%)	34.4	36.8	-240bps	30.7	370bps	35.0	
Minority interest/associate	13.6	5.9		33.2		-25.0	NA
PAT Reported	2,993	2,433	23.0	2,839	5.4	2,848	5.1
Exceptional gain/(loss)	0	0		0	NA	0	NA
PAT (Adjusted)	**2,993**	**2,433**	**23.0**	**2,839**	**5.4**	**2,848**	**5.1**
PAT Margin	**7.4**	**6.6**	**80bps**	**7.3**	**20bps**	**7.5**	**-10bps**
EPS	**6.3**	**5.2**	**19.8**	**5.9**	**5.4**	**6.0**	**5.1**

Source: Company, JM Financial

Exhibit 2. BHFC - overseas manufacturing subsidiaries' performance

(INR mn)	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ
Net Sales	12,675	11,447	10.7	14,299	(11.4)
EBITDA	482	160	201.3	558	-13.6
EBITDA Margin	**3.8**	**1.4**	**240bps**	**3.9**	**-10bps**
PBT	(815)	(1,136)	NA	(656)	NA

Source: Company, JM Financial

Exhibit 3. Standalone performance

Standalone (INR mn)	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ
Net Sales	**19,469**	**22,467**	**-13.3**	**21,047**	**-7.5**
RM	7,053	9,167	-23.1	8,156	-13.5
As a % of sales	36.2	40.8	-460bps	38.8	0bps
Employee Exp	1,674	1,617	3.5	1,696	-1.3
As a % of sales	8.6	7.2	140bps	8.1	50bps
Other Costs	5,232	5,428	-3.6	5,477	-4.5
As a % of sales	26.9	24.2	270bps	26.0	90bps
Expenditure	13,958	16,212	-13.9	15,329	-8.9
EBITDA	**5,511**	**6,254**	**-11.9**	**5,718**	**-3.6**
EBITDA Margin	**28.3**	**27.8**	**50bps**	**27.2**	**110bps**
Other Income	465	348	33.5	422	10.1
Interest	483	635	-24.0	522	-7.6
Depreciation	1,112	1,083	2.6	1,125	-1.1
PBT	4,380	4,884	-10.3	4,493	-2.5
Tax	1,202	1,407	-14.6	1,108	8.5
Tax rate (%)	27.4	28.8	-140bps	24.7	280bps
PAT (Adjusted)	**3,178**	**3,476**	**-8.6**	**3,385**	**-6.1**
PAT Margin	**16.3**	**15.5**	**90bps**	**16.1**	**20bps**

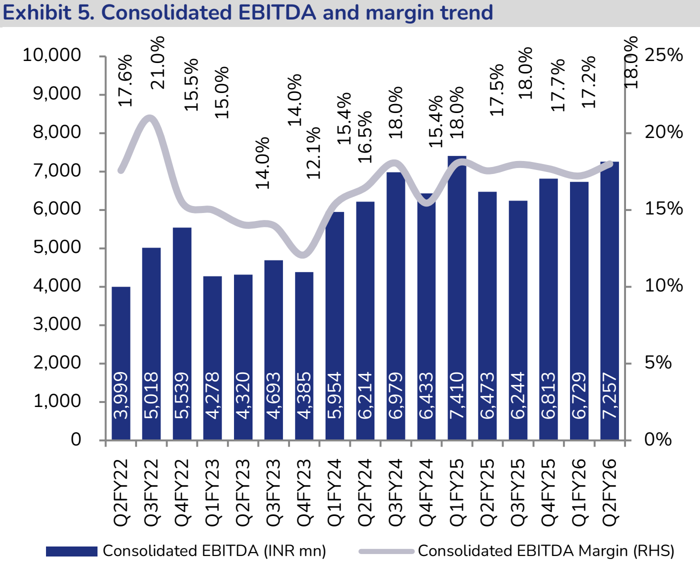
Source: Company, JM Financial

Exhibit 4. Standalone performance

Standalone (INR mn)	Q2FY26	Q2FY25	% YoY	Q1FY26	% QoQ
Total revenue	**19,469**	**22,467**	**-13**	**21,047**	**-7**
Domestic	**10,049**	**10,719**	**-6**	**10,294**	**-2**
CV	2,231	2,199	1	2,447	-9
Industrial	6,906	7,600	-9	6,874	0
PV	912	920	-1	973	-6
Exports	**9,420**	**11,748**	**-20**	**10,753**	**-12**
CV	2,844	5,198	-45	4,499	-37
Industrial	3,625	3,780	-4	3,372	8
PV	2,951	2,770	7	2,882	2

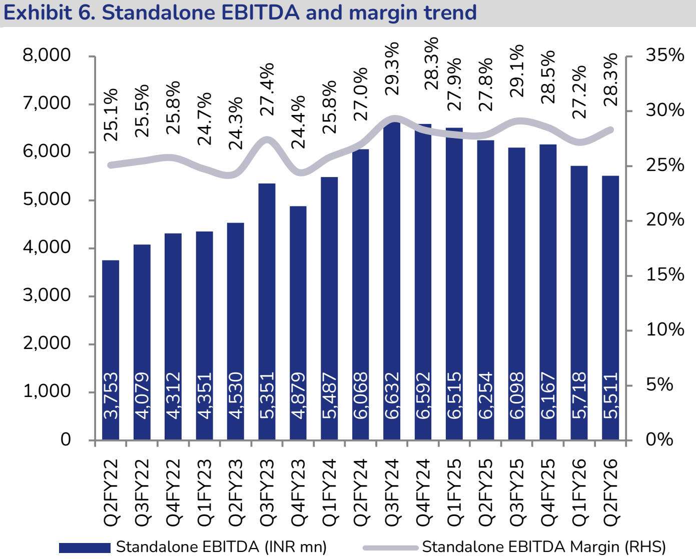
Source: Company, JM Financial

Exhibit 5. Consolidated EBITDA and margin trend



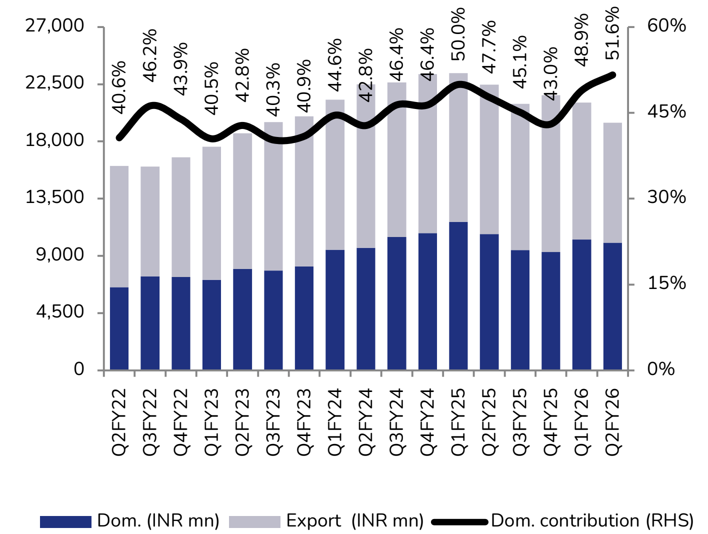
Source: Company, JM Financial

Exhibit 6. Standalone EBITDA and margin trend



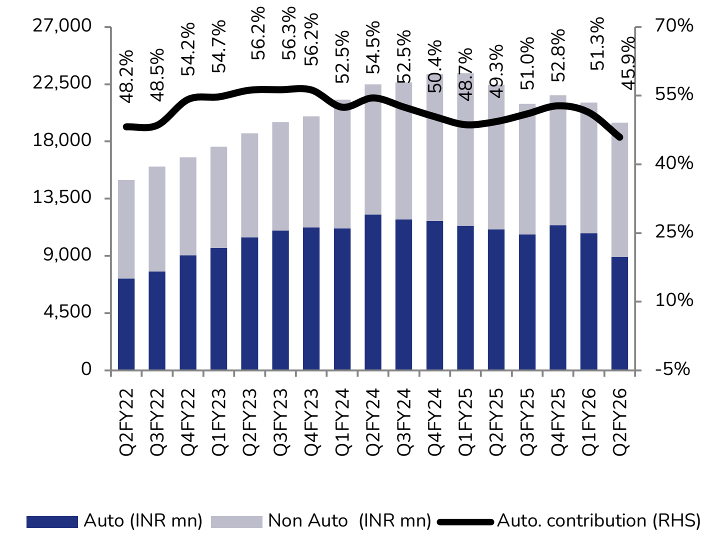
Source: Company, JM Financial

Exhibit 7. Standalone - geographic revenue split



Source: Company, JM Financial

Exhibit 8. Standalone – product revenue split



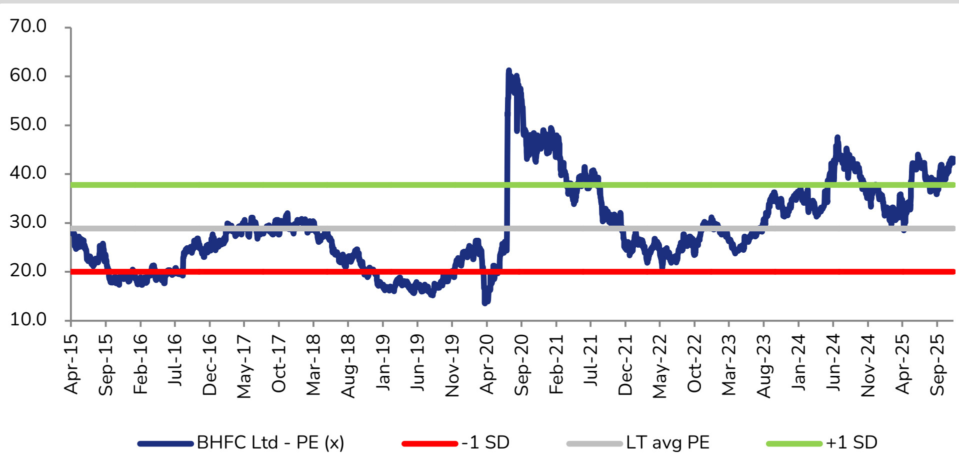
Source: Company, JM Financial

Exhibit 9. BHFC - change in assumptions (consolidated)

BHFC	New assumption			Old assumption			% change		
	FY25A	FY26E	FY27E	FY25A	FY26E	FY27E	FY25A	FY26E	FY27E
Revenue (INR mn)	151,228	168,867	189,739	151,228	164,550	180,354	0.0%	2.6%	5.2%
EBITDA (INR mn)	26,939	30,523	35,405	26,939	27,956	32,010	0.0%	9.2%	10.6%
EBITDAM (%)	*17.8%*	*18.1%*	*18.7%*	*17.8%*	*17.0%*	*17.7%*	-	*109bps*	*91bps*
PAT (INR mn)	10,703	14,792	18,073	10,703	13,337	16,349	0.0%	10.9%	10.5%
EPS (INR)	22.4	30.9	37.8	22.4	27.9	34.2	0.0%	10.9%	10.5%

Source: Company, JM Financial

Exhibit 10. 1-yr forward PE chart



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	1,56,821	1,51,228	1,68,867	1,89,739	2,11,735
Sales Growth	*21.5%*	*-3.6%*	*11.7%*	*12.4%*	*11.6%*
Other Operating Income	0	0	0	0	0
Total Revenue	**1,56,821**	**1,51,228**	**1,68,867**	**1,89,739**	**2,11,735**
Cost of Goods Sold/Op. Exp	73,792	65,943	72,956	81,697	90,606
Personnel Cost	18,600	18,699	21,173	23,398	25,446
Other Expenses	38,849	39,646	44,215	49,238	54,408
EBITDA	**25,579**	**26,939**	**30,523**	**35,405**	**41,275**
EBITDA Margin	*16.3%*	*17.8%*	*18.1%*	*18.7%*	*19.5%*
EBITDA Growth	*44.7%*	*5.3%*	*13.3%*	*16.0%*	*16.6%*
Depn. & Amort.	8,482	8,736	9,415	10,045	10,626
EBIT	17,097	18,203	21,108	25,360	30,649
Other Income	2,274	2,138	2,705	3,044	3,303
Finance Cost	4,912	4,175	4,297	4,772	4,497
PBT before Excep. & Forex	14,460	16,166	19,517	23,632	29,455
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	14,460	16,166	19,517	23,632	29,455
Taxes	5,288	5,426	4,875	5,710	7,198
Extraordinary Inc./Loss(-)	-123	-1,571	0	0	0
Assoc. Profit/Min. Int.(-)	-53	37	-150	-150	-150
Reported Net Profit	9,102	9,133	14,792	18,073	22,408
Adjusted Net Profit	**9,225**	**10,703**	**14,792**	**18,073**	**22,408**
Net Margin	*5.9%*	*7.1%*	*8.8%*	*9.5%*	*10.6%*
Diluted Share Cap. (mn)	465.6	478.1	478.1	478.1	478.1
Diluted EPS (INR)	**19.8**	**22.4**	**30.9**	**37.8**	**46.9**
Diluted EPS Growth	*66.4%*	*13.0%*	*38.2%*	*22.2%*	*24.0%*
Total Dividend + Tax	4,191	2,869	3,825	3,825	3,825
Dividend Per Share (INR)	9.0	6.0	8.0	8.0	8.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	71,702	92,533	1,03,389	1,17,531	1,36,013
Share Capital	931	956	956	956	956
Reserves & Surplus	70,771	91,577	1,02,433	1,16,574	1,35,056
Preference Share Capital	0	0	0	0	0
Minority Interest	-49	-328	-328	-328	-328
Total Loans	79,475	66,983	81,983	76,983	71,983
Def. Tax Liab. / Assets (-)	39	-703	-703	-703	-703
Total - Equity & Liab.	**1,51,167**	**1,58,485**	**1,84,341**	**1,93,483**	**2,06,965**
Net Fixed Assets	73,006	83,586	84,760	85,358	85,961
Gross Fixed Assets	1,43,479	1,56,018	1,74,335	1,84,423	1,95,067
Intangible Assets	3,668	3,041	3,041	3,041	3,041
Less: Depn. & Amort.	84,053	92,789	1,02,204	1,12,250	1,22,875
Capital WIP	9,912	17,317	9,588	10,143	10,729
Investments	18,490	20,627	23,127	25,627	28,127
Current Assets	1,00,344	94,768	1,22,699	1,34,016	1,49,756
Inventories	32,161	35,784	37,012	41,587	46,408
Sundry Debtors	31,769	29,132	34,699	38,987	43,507
Cash & Bank Balances	16,899	12,914	33,202	34,767	40,233
Loans & Advances	2,653	2,151	2,258	2,371	2,490
Other Current Assets	16,861	14,788	15,528	16,304	17,119
Current Liab. & Prov.	40,672	40,497	46,245	51,519	56,880
Current Liabilities	37,365	36,358	41,693	46,511	51,372
Provisions & Others	3,307	4,138	4,552	5,007	5,508
Net Current Assets	59,671	54,272	76,454	82,498	92,877
Total – Assets	**1,51,167**	**1,58,485**	**1,84,341**	**1,93,483**	**2,06,965**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	14,460	16,166	19,517	23,632	29,455
Depn. & Amort.	8,482	8,736	9,415	10,045	10,626
Net Interest Exp. / Inc. (-)	4,912	4,175	4,297	4,772	4,497
Inc (-) / Dec in WCap.	-6,270	1,414	-1,894	-4,479	-4,914
Others	-480	-1,887	150	150	150
Taxes Paid	-5,288	-5,426	-4,875	-5,710	-7,198
Operating Cash Flow	**15,816**	**23,179**	**26,610**	**28,411**	**32,616**
Capex	-12,867	-19,316	-10,588	-10,643	-11,229
Free Cash Flow	*2,949*	*3,863*	*16,021*	*17,767*	*21,388*
Inc (-) / Dec in Investments	7,198	-2,137	-2,500	-2,500	-2,500
Others	-4,912	-4,175	-4,297	-4,772	-4,497
Investing Cash Flow	**-10,581**	**-25,628**	**-17,385**	**-17,915**	**-18,225**
Inc / Dec (-) in Capital	0	25	0	0	0
Dividend + Tax thereon	-4,191	-2,869	-3,825	-3,825	-3,825
Inc / Dec (-) in Loans	6,343	-12,493	15,000	-5,000	-5,000
Others	-883	13,801	-111	-106	-101
Financing Cash Flow	**1,269**	**-1,536**	**11,064**	**-8,931**	**-8,926**
Inc / Dec (-) in Cash	**6,504**	**-3,985**	**20,289**	**1,565**	**5,465**
Opening Cash Balance	10,395	16,899	12,914	33,202	34,767
Closing Cash Balance	16,899	12,914	33,202	34,767	40,233

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	5.9%	7.1%	8.8%	9.5%	10.6%
Asset Turnover (x)	1.1	1.0	1.0	1.0	1.1
Leverage Factor (x)	2.1	1.9	1.8	1.7	1.6
RoE	13.3%	13.0%	15.1%	16.4%	17.7%

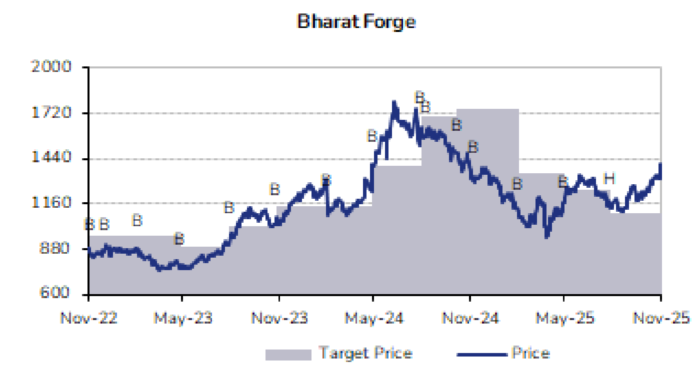
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	154.0	193.5	216.2	245.8	284.5
ROIC	9.8%	10.0%	12.5%	14.7%	17.0%
ROE	13.3%	13.0%	15.1%	16.4%	17.7%
Net Debt/Equity (x)	0.6	0.4	0.2	0.1	0.0
P/E (x)	70.8	62.6	45.3	37.1	29.9
P/B (x)	9.1	7.2	6.5	5.7	4.9
EV/EBITDA (x)	27.3	25.5	22.2	18.9	15.9
EV/Sales (x)	4.4	4.5	4.0	3.5	3.1
Debtor days	74	70	75	75	75
Inventory days	75	86	80	80	80
Creditor days	104	107	110	110	110

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Nov-21	Buy	875	
10-Feb-22	Buy	875	0.0
16-May-22	Buy	925	5.7
9-Jun-22	Buy	925	0.0
11-Aug-22	Buy	870	-5.9
14-Nov-22	Buy	960	10.3
11-Dec-22	Buy	960	0.0
14-Feb-23	Buy	960	0.0
7-May-23	Buy	900	-6.3
9-Aug-23	Buy	1,025	13.9
6-Nov-23	Buy	1,150	12.2
12-Feb-24	Buy	1,150	0.0
8-May-24	Buy	1,400	21.7
9-Aug-24	Buy	1,700	21.4
18-Aug-24	Buy	1,700	0.0
17-Oct-24	Buy	1,750	2.9
17-Nov-24	Buy	1,750	0.0
12-Feb-25	Buy	1,350	-22.9
8-May-25	Buy	1,250	-7.4
6-Aug-25	Hold	1,100	-12.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: ashley.johnson@jmfl.com
Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com

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New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: 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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