

# Bharat Forge | BUY



## Improved profitability at subs.; Defence order book rising steadily

In 1QFY25, Bharat Forge (BHFC) reported consolidated revenue was 3% below JMFe on weak export performance partially offset by strong ramp-up in defence segment. Standalone EBITDAM came-in at 27.9% (+210bps YoY). Consol. EBITDAM increased 260bps QoQ to 18% (+270bps YoY), 150bps above JMFe led by improvement in profitability at subsidiaries. Management highlighted that while NA Class 8 demand remains steady, EU CV sales remain weak. Outlook for domestic CV segment is flattish. While the growth in Auto segment is expected to moderate, medium-term performance is expected to be led by execution of robust order book in Defence/Aerospace (INR 54bn order book for Defence). Cost-control initiatives and positive operating leverage are likely to support margins in the international operations. Maintain BUY with a Sept'25 TP of INR 1,700 (35x forward earnings vs. 30x earlier). Deferment / delay in defence order execution remains a key risk.

- 1QFY25 – Revenue slightly below JMFe; Margin beats estimates:** BHFC's stand. net sales stood at INR 23.4bn (+10% YoY, flattish QoQ); 3% below JMFe owing to weak exports. Total tonnage stood at c.67.5kt (flattish YoY, +1% QoQ). Realisation increased by +10% YoY (-1% QoQ). Reported stand. EBITDAM was 27.9% (+210bps YoY, -40bps QoQ). Consolidated revenue stood at INR 41.1bn (+6%YoY, -1%QoQ); c.3% below JMFe. EBITDAM stood at 18% (+270bps YoY, +260bps QoQ), 150bps above JMFe led by improved profitability at subsidiaries. Consol. EBITDA stood at INR 7.4bn (+24%YoY, +15% QoQ), 6% above JMFe. Consol. adj. PAT stood at INR 1.7bn (-18% YoY).
- Domestic business outlook:** Domestic revenue increased 23%YoY (+8% QoQ) to INR 11.7bn. CV revenue decreased 9% YoY (+3% QoQ) to INR 2.5bn. CV demand is expected to remain muted in the near-term with healthy recovery expected during 2HFY25. PV revenue stood at INR 816mn (+31% YoY, +4% QoQ) led by new business execution. BHFC indicated that new programs, structural market growth and premiumization is expected to drive growth going ahead. Domestic Industrial segment revenue increased 37% YoY (+10% QoQ) to INR c.8.4bn led by strong growth in Defence segment. Order pipeline remains strong led by higher capex spends. During 1QFY25, BHFC secured new orders worth INR 9.8bn across Defence, Casting and Forging business. Of this, defence order wins stands at INR7.7bn and BHFC's defence orderbook stands at ~INR 54bn (domestic + exports). This is expected to drive strong growth in the medium-term. Further, the company expects to secure order for ATAG guns from Govt of India in the near-term.
- Export business outlook:** Exports revenue decreased 1%YoY (-6% QoQ) to INR 11.7bn. CV segment revenue stood at INR 5.3bn (+6% YoY, +1% QoQ). Management indicated that North American Class 8 truck production is likely to remain steady. EU CV sales remain muted as recovery remains anaemic. For FY25, BHFC's CV exports are expected to remain stable with a moderately negative bias. PV segment revenue decreased 1% YoY (-16% QoQ) to INR 2.8bn. BHFC re-iterated its focus on increasing mkt. share and content per vehicle. Industrials revenue declined c.9% YoY (-8% QoQ). While O&G segment witnessed recovery, demand in EU was muted. BHFC indicated that Aerospace segment is on the cusp of rapid growth in the medium-term (aiming to double over next 2-3 years).

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we acknowledge the support services of Dev Jogani and Neha Ayyar in preparation of this report

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,700
Upside/(Downside)	5.9%
Previous Price Target	1,400
Change	21.4%

### Key Data – BHFC IN

Current Market Price	INR1,605
Market cap (bn)	INR747.5/US\$8.9
Free Float	53%
Shares in issue (mn)	465.6
Diluted share (mn)	465.6
3-mon avg daily val (mn)	INR2,815.2/US\$33.5
52-week range	1,826/887
Sensex/Nifty	78,886/24,117
INR/US\$	84.0

### Price Performance

%	1M	6M	12M
Absolute	-4.1	25.2	77.3
Relative*	-2.3	13.6	48.3

\* To the BSE Sensex

### Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	129,103	156,821	177,965	198,394	219,309
Sales Growth (%)	23.4	21.5	13.5	11.5	10.5
EBITDA	17,675	25,579	32,773	37,502	42,448
EBITDA Margin (%)	13.7	16.3	18.4	18.9	19.4
Adjusted Net Profit	5,742	9,635	16,589	20,517	24,378
Diluted EPS (INR)	12.3	20.7	35.6	44.1	52.4
Diluted EPS Growth (%)	-42.0	67.8	72.2	23.7	18.8
ROIC (%)	6.7	9.8	15.0	16.8	18.7
ROE (%)	8.7	13.9	21.2	22.1	21.9
P/E (x)	130.1	77.6	45.1	36.4	30.7
P/B (x)	11.1	10.4	8.8	7.4	6.1
EV/EBITDA (x)	44.4	31.0	24.0	20.7	17.9
Dividend Yield (%)	0.4	0.6	0.5	0.5	0.5

Source: Company data, JM Financial. Note: Valuations as of 08/Aug/2024

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

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Overseas manufacturing operations:** During 1QFY25, overseas manufacturing subsidiaries revenue stood at INR 13.2bn (-1% YoY, -3% QoQ). EBITDA margin at EU operations improved 60bps QoQ to 3.5% led by improved pricing and positive operating leverage. EU operation is currently operating at c.75% utilization level. Management indicated that it expects EBITDA margins to consistently improve going ahead led by cost reduction efforts, focus on value added business and higher capacity utilization. The company also indicated that US Aluminium forging plant is gradually ramping-up (50% utilisation level) and it is expected to break-even by FY25 end.
- **Other highlights:** 1) BHFC has reduced standalone gross debt by INR 2.7bn during 1QFY25 to INR 14.3bn. Standalone net debt/EBITDA ratio stands at 0.8x. Consolidated gross debt reduced by INR 3.1bn to INR21.5bn. 2) Capex guidance for FY25/26 stands at c.10bn each towards expansion of both India operations (INR 5bn) and overseas operations (INR 5bn towards US AL plant – phase 2 and EU plant maintenance). 3) Board has approved fundraise of INR 20bn towards greenfield and inorganic opportunities within India. 4) Company targets 50% YoY growth in defence revenue during FY25. Total order value of long-awaited 307 ATAG guns amounts to INR 40-45bn and the company expects order win from Govt. of India in the near-term.

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

(INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
<b>Net Sales</b>	<b>23,381</b>	<b>21,273</b>	<b>9.9</b>	<b>23,286</b>	<b>0.4</b>	<b>24,028</b>	<b>-2.7</b>
RM	9,777	9,420	3.8	9,647	1.4	10,020	-2.4
As a % of sales	41.8	44.3	-250bps	41.4	40bps	41.7	10bps
Employee Exp	1,626	1,494	8.9	1,504	8.1	1,634	-0.5
As a % of sales	7.0	7.0	-10bps	6.5	50bps	6.8	20bps
Other Costs	5,463	4,873	12.1	5,543	-1.4	5,526	-1.2
As a % of sales	23.4	22.9	50bps	23.8	-40bps	23.0	40bps
Expenditure	16,866	15,786	6.8	16,694	1.0	17,180	-1.8
<b>EBITDA</b>	<b>6,515</b>	<b>5,487</b>	<b>18.7</b>	<b>6,592</b>	<b>-1.2</b>	<b>6,848</b>	<b>-4.9</b>
<b>EBITDA Margin</b>	<b>27.9</b>	<b>25.8</b>	<b>210bps</b>	<b>28.3</b>	<b>-40bps</b>	<b>28.5</b>	<b>-60bps</b>
Other Income	446	472	-5.6	382	16.8	450	-0.9
Interest	702	705	-0.5	634	10.7	700	0.3
Depreciation	1,094	1,089	0.5	1,079	1.4	1,125	-2.7
PBT	5,164	4,165	24.0	5,261	-1.8	5,473	-5.6
Tax	1,014	1,050	-3.5	1,231	-17.6	1,374	-26.2
Tax rate (%)	19.6	25.2	-560bps	23.4	-380bps	25.1	-550bps
<b>PAT (Adjusted)</b>	<b>4,151</b>	<b>3,115</b>	<b>33.3</b>	<b>4,030</b>	<b>3.0</b>	<b>4,099</b>	<b>1.3</b>
<b>PAT Margin</b>	<b>17.8</b>	<b>14.6</b>	<b>310bps</b>	<b>17.3</b>	<b>40bps</b>	<b>17.1</b>	<b>70bps</b>
<b>EPS</b>	<b>8.9</b>	<b>6.7</b>	<b>33.3</b>	<b>8.7</b>	<b>3.0</b>	<b>8.8</b>	<b>1.3</b>

Source: Company, JM Financial

### Exhibit 2. Standalone - segmental performance

(INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ	Q1FY25E	% A/E
<b>Total revenue</b>	<b>23,380</b>	<b>21,274</b>	<b>10</b>	<b>23,286</b>	<b>0</b>	<b>24,028</b>	<b>(3)</b>
<b>Domestic</b>	<b>11,679</b>	<b>9,485</b>	<b>23</b>	<b>10,798</b>	<b>8</b>	<b>11,243</b>	<b>4</b>
CV	2,489	2,734	(9)	2,421	2.8	2,421	3
Industrial	8,374	6,127	37	7,591	10.3	8,099	3
PV	816	624	31	786	3.8	723	13
<b>Exports</b>	<b>11,701</b>	<b>11,789</b>	<b>(1)</b>	<b>12,488</b>	<b>(6.3)</b>	<b>12,785</b>	<b>(8)</b>
CV	5,318	5,023	6	5,264	1.0	5,211	2
Industrial	3,631	3,984	(9)	3,958	(8.3)	4,275	(15)
PV	2,752	2,782	(1)	3,266	(15.7)	3,299	(17)

Source: Company, JM Financial

**Exhibit 3. Consolidated performance**

(INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
<b>Net Sales</b>	<b>41,061</b>	<b>38,773</b>	<b>5.9</b>	<b>41,642</b>	<b>-1.4</b>
RM	18,369	18,780	-2.2	19,566	-6.1
As a % of sales	44.7	48.4	-370bps	47.0	-230bps
Employee Exp	4,987	4,726	5.5	4,749	5.0
As a % of sales	12.1	12.2	0bps	11.4	70bps
Other Costs	10,296	9,313	10.6	10,894	-5.5
As a % of sales	25.1	24.0	110bps	26.2	-110bps
Expenditure	33,652	32,819	2.5	35,209	-4.4
<b>EBITDA</b>	<b>7,410</b>	<b>5,954</b>	<b>24.5</b>	<b>6,433</b>	<b>15.2</b>
<b>EBITDA Margin</b>	<b>18.0</b>	<b>15.4</b>	<b>270bps</b>	<b>15.4</b>	<b>260bps</b>
<b>PAT (Adjusted)</b>	<b>1,745</b>	<b>2,137</b>	<b>-18.3</b>	<b>2,271</b>	<b>-23.1</b>
<b>PAT Margin</b>	<b>4.3</b>	<b>5.5</b>	<b>-130bps</b>	<b>5.5</b>	<b>-120bps</b>
<b>EPS</b>	<b>3.7</b>	<b>4.6</b>	<b>-18.3</b>	<b>4.9</b>	<b>-23.1</b>

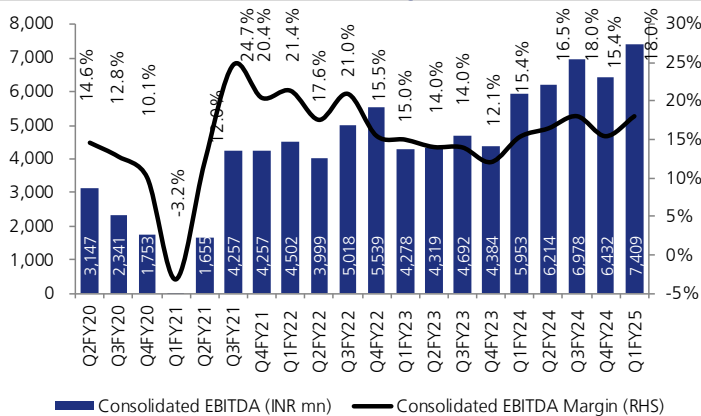
Source: Company, JM Financial

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

(INR mn)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Net Sales	13,200	13,336	-1.0	13,672	(3.5)
EBITDA	135	158	-14.6	-9	NA
<b>EBITDA Margin</b>	<b>1.0</b>	<b>1.2</b>	<b>-20bps</b>	<b>-0.1</b>	<b>110bps</b>
PBT	(1,169)	(930)	NA	(1,295)	NA

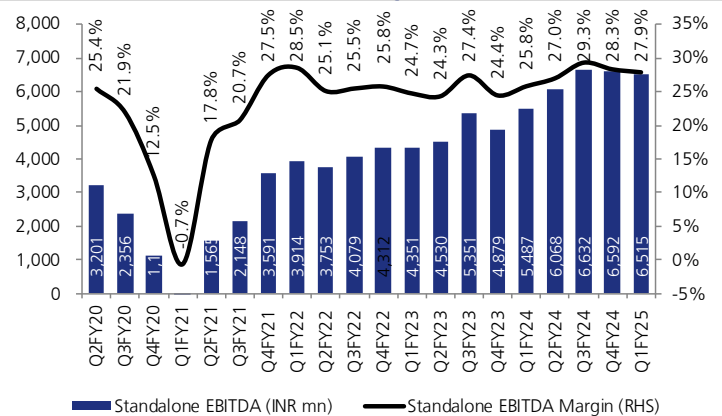
Source: Company, JM Financial

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



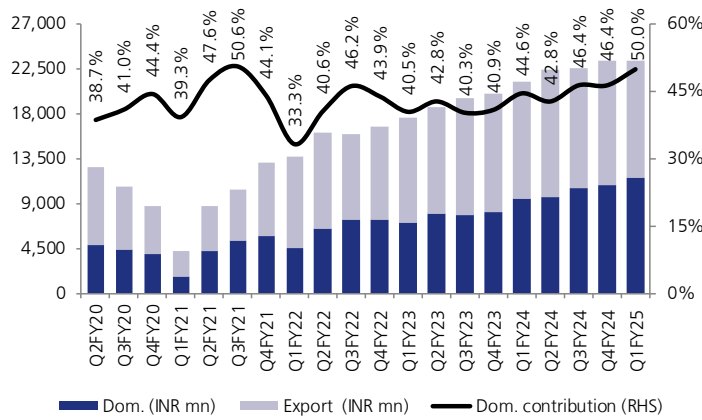
Source: Company, JM Financial

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



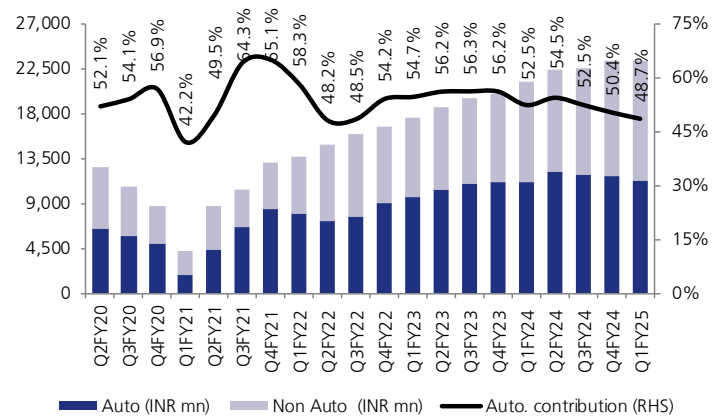
Source: Company, JM Financial

Exhibit 7. Standalone - geographic revenue split



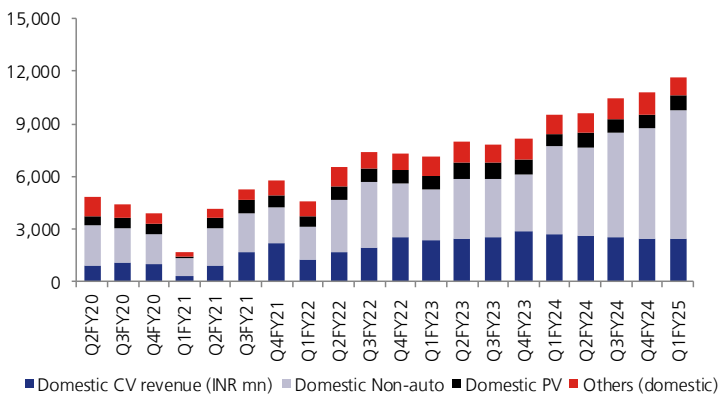
Source: Company, JM Financial

Exhibit 8. Standalone – product revenue split



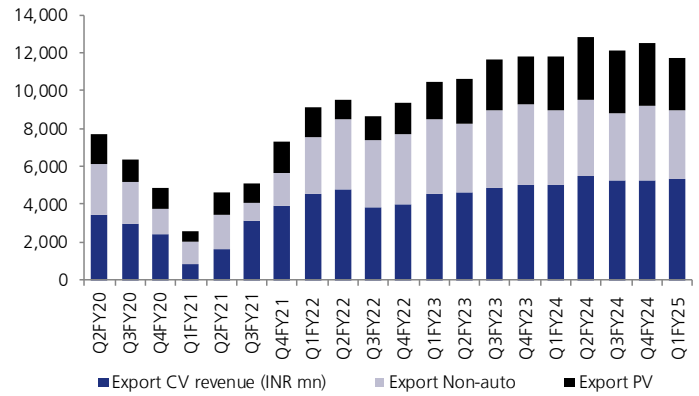
Source: Company, JM Financial

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		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR mn)	177,965	198,394	219,309	181,579	201,467	NA	-2.0%	-1.5%	NA
EBITDA (INR mn)	32,773	37,502	42,448	33,552	38,270	NA	-2.3%	-2.0%	NA
EBITDAM (%)	18.4%	18.9%	19.4%	18.5%	19.0%	NA	0bps	-10bps	NA
PAT (INR mn)	16,589	20,517	24,378	17,742	21,390	NA	-6.5%	-4.1%	NA
EPS (INR)	35.6	44.1	52.4	38.1	45.9	NA	-6.5%	-4.1%	NA

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	129,103	156,821	177,965	198,394	219,309	
Sales Growth	23.4%	21.5%	13.5%	11.5%	10.5%	
Total Revenue	129,103	156,821	177,965	198,394	219,309	
<b>Cost of Goods Sold/Op. Exp</b>	<b>59,614</b>	<b>73,792</b>	<b>81,686</b>	<b>90,864</b>	<b>100,224</b>	
Personnel Cost	15,631	18,600	20,937	23,218	25,461	
Other Expenses	36,183	38,849	42,570	46,809	51,176	
EBITDA	17,675	25,579	32,773	37,502	42,448	
<b>EBITDA Margin</b>	<b>13.7%</b>	<b>16.3%</b>	<b>18.4%</b>	<b>18.9%</b>	<b>19.4%</b>	
EBITDA Growth	-12.3%	44.7%	28.1%	14.4%	13.2%	
Depn. & Amort.	7,356	8,482	8,638	9,093	9,488	
EBIT	10,319	17,097	24,135	28,409	32,960	
Other Income	1,729	2,274	2,549	2,888	3,245	
Finance Cost	2,986	4,912	4,619	3,959	3,684	
PBT before Excep. & Forex	9,062	14,460	22,065	27,338	32,521	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	9,062	14,460	22,065	27,338	32,521	
Taxes	3,186	5,288	5,627	6,971	8,293	
Extraordinary Inc./Loss(-)	-458	-123	-1,518	0	0	
Assoc. Profit/Min. Int.(-)	134	-463	-150	-150	-150	
Reported Net Profit	5,285	9,511	15,071	20,517	24,378	
Adjusted Net Profit	5,742	9,635	16,589	20,517	24,378	
<b>Net Margin</b>	<b>4.4%</b>	<b>6.1%</b>	<b>9.3%</b>	<b>10.3%</b>	<b>11.1%</b>	
Diluted Share Cap. (mn)	465.6	465.6	465.6	465.6	465.6	
Diluted EPS (INR)	12.3	20.7	35.6	44.1	52.4	
<b>Diluted EPS Growth</b>	<b>-42.0%</b>	<b>67.8%</b>	<b>72.2%</b>	<b>23.7%</b>	<b>18.8%</b>	
Total Dividend + Tax	3,259	4,191	3,725	3,725	3,725	
Dividend Per Share (INR)	7.0	9.0	8.0	8.0	8.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	9,062	14,460	22,065	27,338	32,521	
Depn. & Amort.	7,356	8,482	8,638	9,093	9,488	
Net Interest Exp. / Inc. (-)	2,986	4,912	4,619	3,959	3,684	
Inc (-) / Dec in WCap.	-815	-6,270	-5,898	-4,604	-4,745	
Others	-792	-70	-1,368	150	150	
Taxes Paid	-3,186	-5,288	-5,627	-6,971	-8,293	
<b>Operating Cash Flow</b>	<b>14,611</b>	<b>16,226</b>	<b>22,430</b>	<b>28,964</b>	<b>32,805</b>	
Capex	-16,029	-12,867	-10,264	-10,056	-10,082	
Free Cash Flow	-1,418	3,358	12,166	18,908	22,724	
Inc (-) / Dec in Investments	349	7,198	-2,500	-2,500	-2,500	
Others	-2,986	-4,912	-4,619	-3,959	-3,684	
<b>Investing Cash Flow</b>	<b>-18,666</b>	<b>-10,581</b>	<b>-17,382</b>	<b>-16,515</b>	<b>-16,265</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-3,259	-4,191	-3,725	-3,725	-3,725	
Inc / Dec (-) in Loans	13,416	6,343	-5,000	-5,000	-5,000	
Others	-1,737	-1,293	1,401	-111	-106	
<b>Financing Cash Flow</b>	<b>8,420</b>	<b>859</b>	<b>-7,324</b>	<b>-8,836</b>	<b>-8,831</b>	
<b>Inc / Dec (-) in Cash</b>	<b>4,365</b>	<b>6,504</b>	<b>-2,276</b>	<b>3,613</b>	<b>7,709</b>	
Opening Cash Balance	6,030	10,395	16,899	14,623	18,236	
Closing Cash Balance	10,395	16,899	14,623	18,236	25,945	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	67,055	71,702	84,449	101,129	121,677	
Share Capital	931	931	931	931	931	
Reserves & Surplus	66,124	70,771	83,518	100,198	120,745	
Preference Share Capital	0	0	0	0	0	
Minority Interest	361	-49	-49	-49	-49	
Total Loans	73,132	79,475	74,475	69,475	64,475	
Def. Tax Liab. / Assets (-)	658	39	39	39	39	
<b>Total - Equity &amp; Liab.</b>	<b>141,206</b>	<b>151,167</b>	<b>158,914</b>	<b>170,595</b>	<b>186,142</b>	
Net Fixed Assets	68,621	73,006	74,631	75,595	76,188	
Gross Fixed Assets	133,409	143,479	154,392	164,655	174,211	
Intangible Assets	3,771	3,668	3,668	3,668	3,668	
Less: Depn. & Amort.	75,571	84,053	92,691	101,784	111,273	
Capital WIP	7,012	9,912	9,264	9,056	9,582	
Investments	25,688	18,490	20,990	23,490	25,990	
Current Assets	88,038	100,344	110,687	124,000	141,667	
Inventories	31,263	32,161	39,006	43,484	48,068	
Sundry Debtors	30,988	31,769	36,568	40,766	45,064	
Cash & Bank Balances	10,395	16,899	14,623	18,236	25,945	
Loans & Advances	3,066	2,653	2,786	2,925	3,072	
Other Current Assets	12,327	16,861	17,704	18,589	19,518	
Current Liab. & Prov.	41,140	40,672	47,394	52,489	57,702	
Current Liabilities	38,827	37,365	43,757	48,488	53,301	
Provisions & Others	2,313	3,307	3,638	4,001	4,402	
Net Current Assets	46,897	59,671	63,293	71,510	83,964	
<b>Total - Assets</b>	<b>141,206</b>	<b>151,167</b>	<b>158,914</b>	<b>170,595</b>	<b>186,142</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	4.4%	6.1%	9.3%	10.3%	11.1%	
Asset Turnover (x)	1.0	1.1	1.1	1.2	1.2	
Leverage Factor (x)	2.0	2.1	2.0	1.8	1.6	
RoE	8.7%	13.9%	21.2%	22.1%	21.9%	

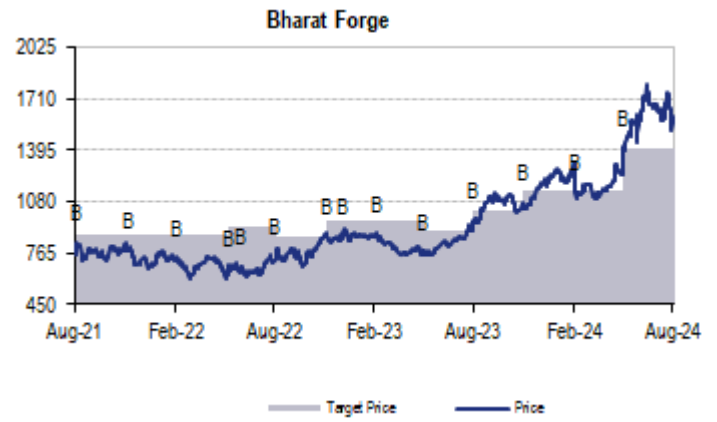
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	144.0	154.0	181.4	217.2	261.3	
ROIC	6.7%	9.8%	15.0%	16.8%	18.7%	
ROE	8.7%	13.9%	21.2%	22.1%	21.9%	
Net Debt/Equity (x)	0.6	0.6	0.5	0.3	0.1	
P/E (x)	130.1	77.6	45.1	36.4	30.7	
P/B (x)	11.1	10.4	8.8	7.4	6.1	
EV/EBITDA (x)	44.4	31.0	24.0	20.7	17.9	
EV/Sales (x)	6.1	5.1	4.4	3.9	3.5	
Debtor days	88	74	75	75	75	
Inventory days	88	75	80	80	80	
Creditor days	127	104	110	110	110	

Source: Company, JM Financial

**History of Recommendation and Target Price**

Date	Recommendation	Target Price	% Chg.
29-Jun-20	Buy	345	
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
6-Nov-23	Buy	1,150	12.2
12-Feb-24	Buy	1,150	0.0
8-May-24	Buy	1,400	21.7

**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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Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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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