

November 14, 2024

RESULT REPORT Q2 FY25 | Sector: Automobile

Bharat Forge Ltd

Valuations offer comfort; upgrade to BUY

Valuation and View – Diversified revenue base to cushion weak auto

Bharat Forge (BHFC) 2QFY25 results were largely in-line to our/street. Weak tonnage at 64.1k tons (-9% YoY/ -5% QoQ, est 68.1k tons) was offset by better gross margins at 59.2% (+250bp YoY, est 58.7%). The key highlight of the quarters was, ramp-up in defence business with 2QFY25 revenues at ~Rs5.1b (vs Rs6.42b in 1Q and ~Rs15.6b in FY24) with cumulative order book at ~Rs59b (vs ~Rs54b in 1QFY25) as it added Rs6.4b orders in 2QFY. QoQ decline in revenues was led by completion of exports orders. However, the overseas subs performance continued to be mixed bag led by EU with margins at ~3.9% in 2QFY25 (vs ~3.5% in 1QFY25) while US subs is still some time away for EBITDA breakeven with 2Q EBITDA loss at Rs216m. The management has hinted towards improved profitability in overseas subs over FY25E led by pricing support both in EU/US for Alu forgings, cost efficiencies and improved utilization. Aerospace vertical order wins at Rs3b (vs revenues of ~Rs1b in 1HFY25).

With diverse presence, BHFC is better placed than its previous cycles as it to benefit from 1) improving defence orders and ramp up in domestic/exports PVs, 2) positive outlook for industrials (with strong wins in Aerospace, mining, and recovery in O&G). We largely maintain FY25/26E EPS as we continue to expect sharp defence ramp-up would cushion weakness in non-defence vertical. The recent correction in the stock largely factors in near-term challenges and do offer decent upside on the stock as our SOTP based TP value the co at Rs1,624 (v/s Rs1,678 earlier) based on 50x to defence business at Rs852/share and 21x to other base business at Rs772/share on Mar'27 EPS. BHFC trades at 33x/28x of FY26/27 consol EPS (v/s ~42x 10-year LPA), supporting overall upside while reflecting diversifying profit pools (execution in industrial segment led by defense, aerospace).

Result Highlights – Margins delivery resilient

- SA Revenues were flat YoY (-3.9% QoQ) at ~Rs22.5b (est Rs23.9b) as tonnage degrew 9% YoY/-5% QoQ at ~64.1k tons while ASP grew 9.8%/+1.2% YoY/QoQ at Rs350.5k/ton. Domestic revenues grew ~12% YoY while exports fell ~9% YoY led by weak Europe CVs. Ex of Europe CV export grew 14% YoY led by NA.
- Gross margins expanded 250bp YoY at 59.2% (est 58.7%). This resulted EBITDA at ~Rs6.5b (+4.8% YoY, est Rs6.8b). EBITDA margins came in at 28.8% (+140bp YoY, est 28.5%). Margins expansion was driven by better product mix. Steady operating performance resulted Adj.PAT at ~Rs3.5b (+0.6% YoY, est ~Rs4.1b).
- Overseas subs performance** - Europe EBITDAM at 3.9% (vs 3.5% in 2QFY24), US EBITDA loss at USD216m (vs loss of Rs263m in 2QFY24) whereas overall EBITDA margins for overseas subs came in at ~1.4% (vs 0.7% in 2QFY24).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	22,467	23,921	23,887	-6.1	-5.9	In-line; Defence drive margins while non-defence on weak footings.
EBITDA	6,477	6,814	6,572	-4.9	-1.4	
EBITDA margins %	28.8	28.5	27.5	30bp	130bp	
Adjusted PAT	3,514	4,060	3,814	-13.4	-7.9	

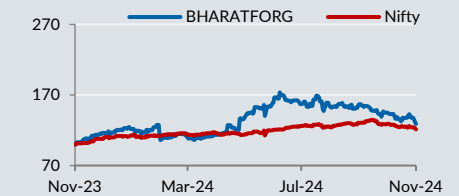
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,328
Target Price	: Rs 1,624
Potential Return	: +22.2%

Stock data (as on Nov 14, 2024)

Nifty	23,533
52 Week h/l (Rs)	1,805 / 1,028
Market cap (Rs/USD mn)	6,15,275 / 7,287
Outstanding Shares (mn)	466
6m Avg t/o (Rs mn):	1,971
Div yield (%):	0.6
Bloomberg code:	BHFC IN
NSE code:	BHARATFORG

Stock performance



	1M	3M	1Y
Absolute return	(10.8%)	(15.2%)	+28.9%

Shareholding pattern (As of Sep'24)

Promoter	45.3%
FII+DII	45.2%
Others	9.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	1,624	1,679

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	40.2	47.4
EPS (Old)	41.1	48.5
% change	(2.0%)	(2.1%)

Financial Summary- Consolidated

Y/E Mar (Rs b)	FY25E	FY26E	FY27E
Sales	172.5	189.9	208.3
EBITDA	32.3	34.7	39.5
Adj. PAT	16.2	18.7	22.1
EPS (INR)	34.8	40.2	47.4
EPS Gr. (%)	66.6	15.5	17.9
BV/Sh. (INR)	184.8	221.0	264.5
RoE (%)	20.6	19.8	19.5
RoCE (%)	12.3	12.4	13.0
Payout (%)	11.7	10.1	8.5
P/E (x)	38.1	33.0	28.0
P/BV (x)	7.2	6.0	5.0
EV/EBITDA (x)	21.3	19.5	16.8
EV/Sales (x)	4.0	3.6	3.2

DEEP SHAH

Lead Analyst

📞 +91 22 6992 2934 / 35 / 36



MEGHNA GUNDU, Associate

Exhibit 2: Quarterly snapshot - Standalone

Y/E Mar (Rs mn)	Q2FY25	Q2FY24	YoY chg	Q1FY25	QoQ chg	1HFY25	1HFY24	YoY chg
Net Revenues	22,467	22,494	(0.1)	23,381	(3.9)	45,848	43,767	4.8
Raw Materials	9,167	9,744	(5.9)	9,777	(6.2)	18,945	19,164	(1.1)
% of Net Sales	40.8%	43.3%		41.8%		41.3%	43.8%	
Personnel	1,617	1,506	7.4	1,626	(0.5)	3,243	3,000	8.1
% of Net Sales	7.2%	6.7%		7.0%		7.1%	6.9%	
Manufacturing & Other Exp	5,205	5,064	2.8	5,404	(3.7)	10,608	9,716	9.2
% of Net Sales	23.2%	22.5%		23.1%		23.1%	22.2%	
Total Expenditure	15,989	16,315	(2.0)	16,807	(4.9)	32,797	31,880	2.9
EBITDA	6,477	6,179	4.8	6,574	(1.5)	13,051	11,887	9.8
EBITDA Margin (%)	28.8%	27.5%		28.1%		28.5%	27.2%	
Depreciation	1,083	1,128	(4.0)	1,094	(1.0)	2,178	2,217	(1.8)
EBIT	5,394	5,051	6.8	5,479	(1.6)	10,873	9,670	12.4
Interest Expenses	635	726	(12.6)	702	(9.5)	1,337	1,431	(6.6)
Non-operating income	348	424	(17.9)	446	(21.9)	794	896	(11.4)
Extraordinary Exp (inc) / Forex loss (gain)	(88)	(114)		(1,516)		(1,603)	(335)	
PBT	5,019	4,634	8.3	3,708	35.4	8,727	8,799	(0.8)
Tax-Total	1,407	1,156	21.7	1,014	38.9	2,421	2,206	9.7
Tax Rate (%) - Total	28.0%	24.9%		27.3%		27.7%	25.1%	
Reported PAT	3,612	3,478	3.8	2,694	34.1	6,306	6,593	(4.4)
Adj. PAT	3,514	3,494	0.6	3,753	(6.4)	7,267	6,609	10.0
PAT Margin	15.6%	15.5%		16.1%		15.9%	15.1%	
Key Operating Metrics								
Volume (MT)	64,098	70,459	(9.0)	67,501	(5.0)	131,599	138,239	(4.8)
Realisation / ton (Rs)	350,505	319,248	9.8	346,379	1.2	348,389	316,602	10.0
Gross Profit / ton (Rs)	207,482	180,954	14.7	201,531	3.0	204,430	177,976	14.9
Staff Cost / ton (Rs)	25,231	21,379	18.0	23,959	5.3	24,646	21,703	13.6
Other Mfg cost / ton (Rs)	81,198	71,879	13.0	77,105	5.3	80,612	70,284	14.7
EBITDA / ton (Rs)	101,053	87,696	15.2	95,958	5.3	99,172	85,989	15.3
Adj. Profit / ton (Rs)	54,826	49,584	10.6	52,062	5.3	55,220	47,806	15.5

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

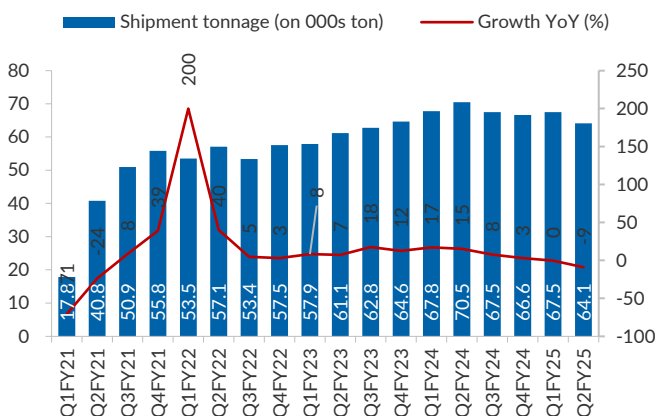
- Outlook – Expect stable 2HFY25 (vs 1HFY25) with improvement in subs performance
 - **Flat standalone (S/A) revenues** – Domestic revenues grew ~12% YoY while exports fell ~9% YoY led by weak Europe CVs. Ex of Europe CV export grew 14% YoY led by resilient underlying demand from North America.
 - **Industrial domestic** - Revenues grew ~26% YoY to Rs63.9b led by execution of defence orders supported by a good show in construction-mining and power generation. The outlook for the business remains is healthy
 - **Industrial exports** – The demand environment (ex-Europe) remains sanguine as spend on infrastructure is a key focus area globally.
 - **Overseas subs** - Focus will be on improvement in operational parameters resulting in reduction of losses in FY25. This will be led by Europe largely in FY25E and FY26E.
 - **Overseas outlook** - See demand challenging in Europe and co is downsizing operations. While NA continued to be strong footings with expectation of the same to continue in FY26E as well. Decline in Asia YoY is led by inventory correction at customer end.
 - **India outlook** - India expect infra spend to begin which should help Agri and CV. MHCV outlook is moderately positive.
 - Added 3 new customers in 1HFY26 for component business.
- New order wins in 2QFY25 – overall wins of ~Rs12.1b in 2QFY25 (vs Rs9.8b in 1Q)
 - **Standalone** - In 2QFY25, the Indian operations have secured new orders worth ~Rs5.68b (vs ~Rs2.05b in 1Q, ~Rs13.5b in FY24 and ~Rs7.4b in 1HFY24) across automotive & industrial applications. This includes a healthy mix of existing and new customers across traditional & new products.
 - **Defense** - New orders worth Rs6.42b in 2Q (vs Rs7.75b in 1Q and Rs14b in 1H) across Artillery systems, Armored vehicles and consumables. The executable order book stands at ~Rs59.05b (vs ~Rs54b in 1QFY25, ~Rs51.92b as of FY24 and ~Rs20b in 3QFY24) over 3-4 years. Have secured orders for new and existing customer for new and existing product and the entire order book can be managed from existing capacity.
- **Defence** revenues of Rs5.09b in 2QFY25 (vs Rs6.42b in 1QFY25, +67% YoY). QoQ decline in revenues was led by completion of exports orders while new orders SOP is bit long gestation.
 - Maintained healthy revenue growth guidance for FY25E (indicated 40-50% revenue growth from the segment in FY25 and healthy growth next year as well). Order wins are across vehicles, guns and components. **Expect share of domestic to be 40-50% of defence business backed by ramp-up expected from Naval business.**
 - Export gun order still being delivered.
 - **ATAGs** – Process is underway by the government and expect order to be realized in FY25.
- **Aerospace** – Customer approval process is still underway but expect 15-20% growth in FY25E (vs Rs2.5b in FY24) and strong double-digit growth in FY26E. **Order won of Rs3b (vs FY24 revenues at Rs2.4b and 1HFY25 revenues at ~Rs1b).**
- **JS Auto performance in 2QFY25**

Bharat Forge Ltd (BHFC)

- Revenues grew ~32% YoY at Rs1.65b (vs Rs1.59b in1Q) with EBITDA growth of ~60% YoY at Rs200m (vs Rs220m in 1Q). EBITDA margins of 12.1% (vs 13.8% in 1Q). FY24 revenues at Rs5.67b with exit 4QFY24 margins at 16.5%.
- **Expect business to grow >2x in 4 years.** JS is working on initiatives such as more value addition, NPD and capacity utilization. Grew 30% YoY 2 years consecutive.
- **Order wins** at Rs1.73b in 2QFY25.
- Europe subs had pricing support (for Alu. forgings) coming in lead to EBITDA despite weak underlying industry
 - Expect to get price increase in the US as well (for alu forgins) which should EBITDA breakeven if not positive EBITDAM. Volume decline at the end of US customer to elongate EBITDA recovery. Expect to reach desired margins level in 2-3 quarters.
 - Europe and the US aluminum forging business capacity utilization at 70-75% and ~50% respectively.
 - Weakness in overseas PV expected to impact aluminum business by 1-2 quarter.
 - As diversification, non-auto is doable while due to limiting size (up to 12kgs), it would not have much applications beyond PV within Auto.
 - Steel forging facilities are under product rationalization and right sizing including footprint and manpower rationalization.
- **Capex** – Consol capex for 1HFY25 at ~Rs8.2b largely for second phase expansion in the US aluminum SOP by FY26 for USD8-10m and balance in India. Expect 2HFY25 capex to be much lower.
 - **Investment in subs** – 1) US phase 2 expansion and 2) EV vertical to set-up assets.
- Net cash of ~Rs20b with debt to equity of 0.4x.

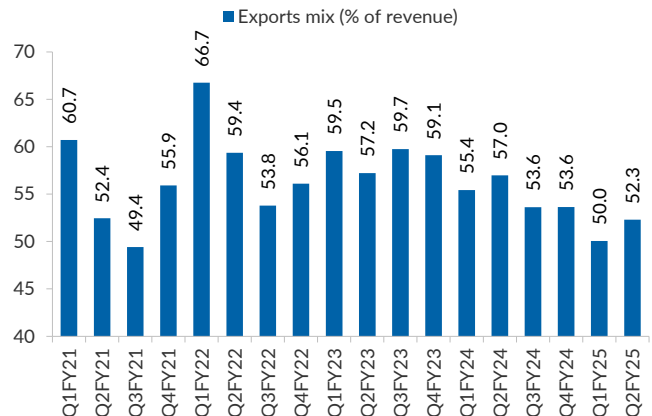
CHARTS

Exhibit 1: Tonnage declined by 9%/5% YoY/QoQ



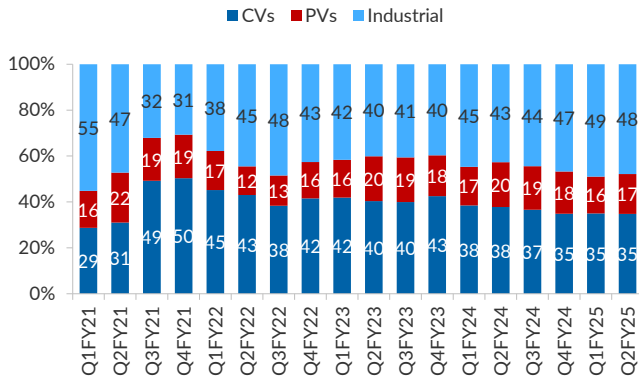
Source: Company, YES Sec

Exhibit 2: Exports revenues mix grew to ~52.3%



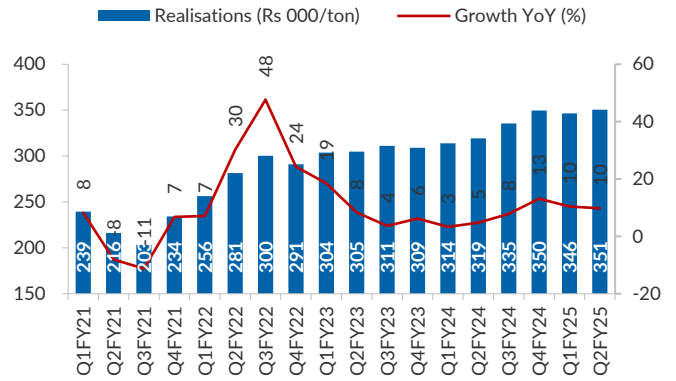
Source: Company, YES Sec

Exhibit 3: PV mix improved to ~17%



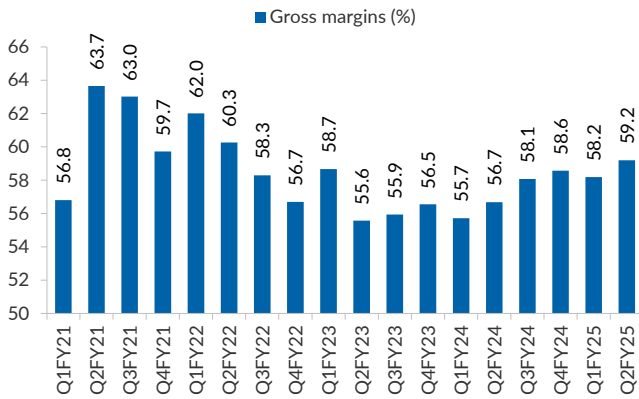
Source: Company, YES Sec

Exhibit 4: S/A ASPs grew 1.2% QoQ at ~Rs351.5k/ton



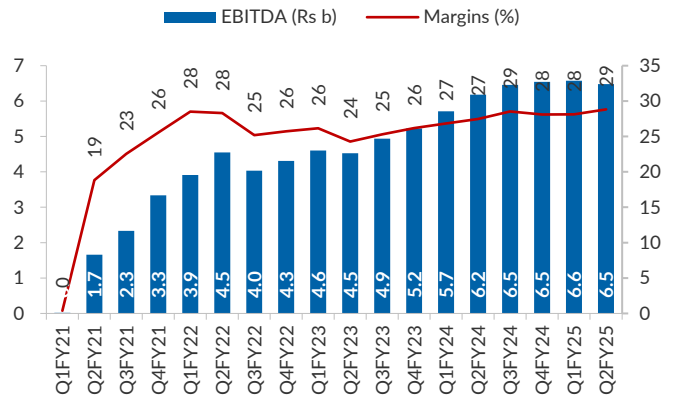
Source: Company, YES Sec

Exhibit 5: GM expanded ~100bps QoQ at 59.2%



Source: Company, YES Sec

Exhibit 6: Margin expanded ~70bp QoQ at 28.8%



Source: Company, YES Sec

CONSOLIDATED FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	931	931	931	931	931	931
Total Reserves	64,775	66,124	70,771	85,125	101,997	122,227
Net Worth	65,707	67,055	71,702	86,057	102,928	123,158
Minority Interest	561	361	(49)	(54)	(59)	(65)
Deferred Liabilities	1,718	658	39	39	39	39
Total Loans	59,716	73,132	79,475	77,475	75,475	73,475
Capital Employed	127,702	141,206	151,167	163,517	178,383	196,607
Gross Block	81,923	101,377	110,200	124,468	131,968	139,468
Less: Accum. Deprn.	33,226	39,723	46,965	55,503	64,303	73,647
Net Fixed Assets	48,697	61,654	63,235	68,965	67,666	65,821
Capital WIP	11,248	6,964	9,769	5,000	5,000	5,000
Total Investments	26,040	25,691	18,493	20,493	22,493	24,493
Curr. Assets, Loans & Adv.	68,933	88,038	100,344	112,547	131,104	153,805
Inventory	27,105	31,263	32,161	35,378	38,950	42,719
Account Receivables	21,736	30,988	31,769	35,447	39,026	42,802
Cash and Bank Balance	6,030	10,395	16,899	10,056	18,265	30,048
Loans and Advances	14,062	15,392	19,514	31,666	34,863	38,236
Curr. Liability & Prov.	27,216	41,140	40,672	43,488	47,879	52,512
Creditors	16,314	21,513	22,621	23,631	26,017	28,535
Other Current Liabilities	8,226	17,314	14,744	16,219	17,857	19,584
Provisions	2,677	2,313	3,307	3,638	4,005	4,393
Net Current Assets	41,717	46,897	59,671	69,059	83,225	101,293
Appl. of Funds	127,702	141,206	151,167	163,517	178,383	196,607

Source: Company, YES Sec

Bharat Forge Ltd (BHFC)

Exhibit 8: Income statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	104,611	129,103	156,821	172,509	189,926	208,303
Change (%)	65.1	23.4	21.5	10.0	10.1	9.7
EBITDA	20,159	17,675	25,579	32,267	34,739	39,514
Margin (%)	19.3	13.7	16.3	18.7	18.3	19.0
Depreciation	7,303	7,356	8,482	8,538	8,800	9,344
EBIT	12,856	10,319	17,097	23,729	25,939	30,169
Int. and Finance Charges	1,604	2,986	4,912	4,699	3,758	3,472
Other Income - Rec.	1,959	1,729	2,274	2,155	2,404	2,404
Share of profit	(330)	(334)	53			
PBT bef. EO Exp.	13,211	8,727	14,513	21,185	24,584	29,101
EO Expense/(Income)	(924)	458	123	-	-	-
PBT after EO Exp.	14,135	9,185	14,636	21,185	24,584	29,101
Current Tax	3,035	3,186	5,288	5,296	6,146	7,275
Deferred Tax	-	-	-	-	-	-
Tax Rate (%)	21	35	36	25	25	25
Reported PAT	11,101	6,000	9,348	15,889	18,438	21,826
PAT Adj for EO items	10,375	5,701	9,269	15,889	18,438	21,826
Change (%)	329.6	(45.1)	62.6	71.4	16.0	18.4
Margin (%)	9.9	4.4	5.9	9.2	9.7	10.5
Less: Minority Interest	283	134	(464)	(329)	(296)	(266)
Net Profit	10,092	5,566	9,733	16,217	18,734	22,092

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Operating PBT	14,135	8,604	14,337	23,729	25,939	30,169
Depreciation	7,303	7,356	8,482	8,538	8,800	9,344
Other income	(1,510)	1,979	3,370	2,479	2,694	2,664
Direct Taxes Paid	(3,525)	(4,172)	(5,185)	(5,296)	(6,146)	(7,275)
(Inc)/Dec in WC	(12,269)	(363)	(4,236)	(16,231)	(5,957)	(6,285)
CF from Operations	4,134	13,403	16,767	13,219	25,329	28,617
CF from Operating incl EO	5,058	12,945	16,644	13,219	25,329	28,617
(inc)/dec in FA	(9,646)	(9,699)	(15,003)	(9,500)	(7,500)	(7,500)
Free Cash Flow	(4,588)	3,246	1,641	3,719	17,829	21,117
(Pur)/Sale of Investments	2,746	(7,015)	8,336	(2,000)	(2,000)	(2,000)
CF from Investments	(6,901)	(16,713)	(6,667)	(11,500)	(9,500)	(9,500)
Inc/(Dec) in Debt	6,517	8,443	6,669	(2,000)	(2,000)	(2,000)
Interest Paid	(1,444)	(2,387)	(4,896)	(4,699)	(3,758)	(3,472)
Dividend Paid	(1,642)	(3,253)	(3,801)	(1,863)	(1,863)	(1,863)
CF from Fin. Activity	3,102	2,803	(2,027)	(8,562)	(7,620)	(7,334)
Inc/Dec of Cash	1,260	(966)	7,950	(6,843)	8,209	11,783

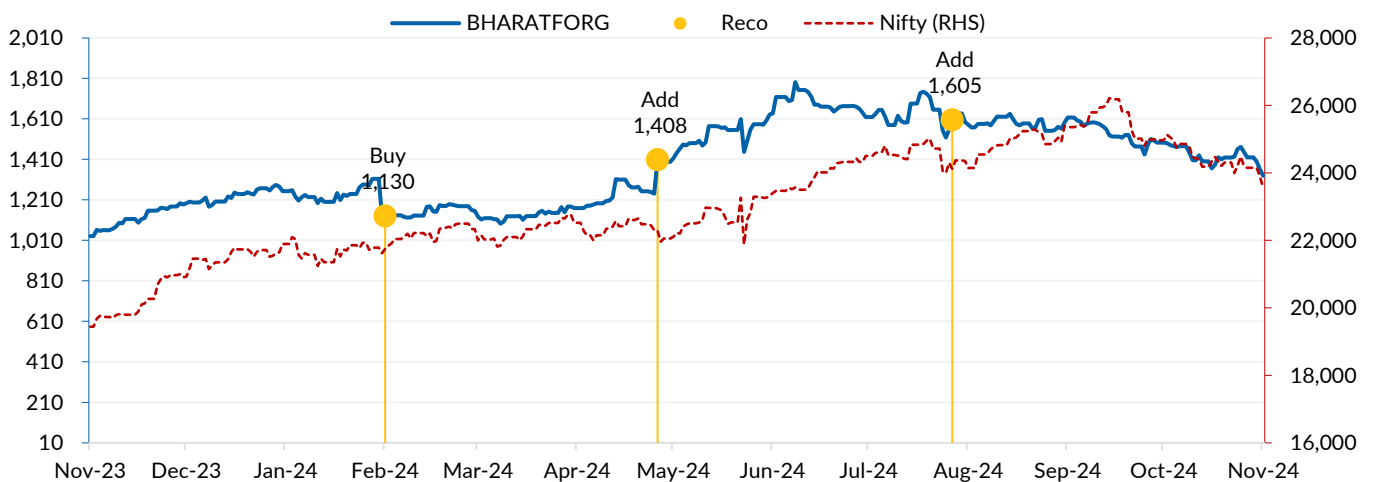
Source- Company, YES Sec

Exhibit 10: Key Financial Ratios

VY/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)						
EPS	21.7	12.0	20.9	34.8	40.2	47.4
Cash EPS	38.0	28.0	38.1	52.5	58.5	66.9
BV/Share	141.1	144.0	154.0	184.8	221.0	264.5
DPS	7.0	7.0	6.5	4.0	4.0	4.0
Payout (%)	29.4	54.3	32.4	11.7	10.1	8.5
Valuation (x)						
P/E	61.3	111.1	63.5	38.1	33.0	28.0
P/BV	9.4	9.2	8.6	7.2	6.0	5.0
EV/Sales	6.4	5.3	4.3	4.0	3.6	3.2
EV/EBITDA	33.3	38.5	26.6	21.3	19.5	16.8
Dividend Yield (%)	0.5	0.5	0.5	0.3	0.3	0.3
Return Ratios (%)						
RoE	16.8	8.4	14.0	20.6	19.8	19.5
RoCE	10.0	5.9	8.5	12.3	12.4	13.0
RoIC	13.2	7.4	10.7	15.2	14.9	16.8
Working Capital Ratios						
Fixed Asset Turnover (x)	1.3	1.3	1.4	1.4	1.4	1.5
Inventory (Days)	94.6	88.4	74.9	74.9	74.9	74.9
Debtor (Days)	75.8	87.6	73.9	75.0	75.0	75.0
Creditor (Days)	56.9	60.8	52.7	50.0	50.0	50.0
Working Capital Turnover (Days)	124.5	103.2	99.6	124.8	124.8	124.8
Leverage Ratio (x)						
Debt/Equity	0.9	1.1	1.1	0.9	0.7	0.6

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

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Details of Compliance Officer: Aditya Goenka | Email: compliance@ysil.in / Contact No.: 022-65078127 | Grievances Redressal Cell: customer.service@ysil.in / igc@ysil.in

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