

August 08, 2024

RESULT REPORT Q1 FY25 | Sector: Automobile

Bharat Forge Ltd

Defence outshine weakness in other segments

Valuation and View – Diversified revenue base to cushion weak auto

Bharat Forge (BHFC) 1QFY25 results were in-line to our/street. ASP came in lower at ~Rs346.4k/ton (+10.4% YoY/ -0.9% QoQ, est Rs356k), partially offset by better tonnage at 67.5k tons (-0.4% YoY/ +1.3% QoQ, est 66.7k tons). The key highlight of the quarters was, ramp-up in defence business with 1QFY25 revenues at Rs6.42b (vs ~Rs15.6b in FY24) with cumulative order book at ~R54b (vs ~Rs51.9b in FY24) as it added Rs7.75b orders in 1QFY25. However, the overseas subs performance continued to be below par led by EU with margins at ~3.5% in 1QFY25 (~2.9% in 4QFY24 and ~4.4% in 1QFY24) while US subs is still some time away for EBITDA breakeven (1QFY25 EBITDA loss at Rs235m. 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.

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 do provide limited upside on the stock as our SOTP based TP value the co at Rs1,770 (v/s Rs1,570 earlier) based on 50x to defence business at Rs993/share and 23x to other base business at Rs777/share on Mar'26 EPS. BHFC trades at 48.3x/39.1x of FY25/26 consol EPS (v/s ~42x 10 year LPA), limiting overall upside while reflecting diversifying profit pools (execution in industrial segment led by defense, aerospace).

Result Highlights – In-line operating performance

- SA Revenues grew 9.9% YoY (+0.4% QoQ) at ~Rs23.4b (est ~Rs23.8b) as tonnage degrew 0.4% YoY/+1.3% QoQ at ~67.5k tons while ASP grew 10.4%/-0.0% YoY/QoQ at Rs346.4k/ton.
- Gross margins expanded 250bp YoY (-40bp QoQ) at 58.2% (est 58.6%). This resulted EBITDA at ~Rs6.58b (+15.2% YoY, +0.6% QoQ, est Rs6.7b). Consequently, EBITDA margins came in at 28.1% (+130bp YoY and flat QoQ, est 28.3%). Steady operating performance resulted Adj.PAT at ~Rs3.7b (+20.5% YoY, -6.1% QoQ, est ~Rs4.1b). Co reported exceptional cost of Rs1.45b due to provision for impairment of an investment in Tork and VRS at Mundhwa plant.
- Overseas subs performance** - Europe operations EBITDAM at 3.5% (vs 4.4% in 1QFY24, 2.9% in 4QFY24), US EBITDA loss at Rs235m (vs loss of Rs349m in 1QFY24 and loss of Rs341m in 4QFY24) whereas overall EBITDA margins for overseas subs came in at ~1% (vs 1.7% in 4Q and 1.2% in 1QFY24).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	23,381	23,775	23,561	-1.7	-0.8	In-line; Defence drive margins while non-defence on weak footings.
EBITDA	6,576	6,717	6,570	-2.1	0.1	
EBITDA margins %	28.1	28.3	27.9	-10bp	20bp	
Adjusted PAT	3,753	4,094	3,968	-8.3	-5.4	

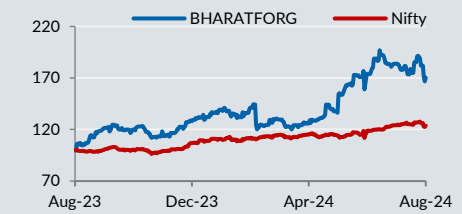
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 1,605
Target Price	: Rs 1,770
Potential Return	: +10.3%

Stock data (as on Aug 08, 2024)

Nifty	24,117
52 Week h/l (Rs)	1,805 / 887
Market cap (Rs/USD mn)	7,06,508 / 8,418
Outstanding Shares (mn)	466
6m Avg t/o (Rs mn):	1,853
Div yield (%):	0.5
Bloomberg code:	BHFC IN
NSE code:	BHARATFORG

Stock performance



	1M	3M	1Y
Absolute return	-7.4%	+10.3%	+71.2%

Shareholding pattern (As of Jun'24)

Promoter	45.3%
FII+DII	45.2%
Others	9.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,770	1,570

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	33.2	41.1
EPS (Old)	33.0	41.9
% change	+0.5%	-1.9%

Financial Summary- Consolidated

Y/E Mar (Rs b)	2024	2025E	2026E
Sales	156.8	176.8	193.7
EBITDA	25.6	31.0	35.3
Adj. PAT	9.7	15.5	19.1
EPS (INR)	20.9	33.2	41.1
EPS Gr. (%)	74.9	58.8	23.8
BV/Sh. (INR)	154.0	183.2	220.3
RoE (%)	14.0	19.7	20.4
RoCE (%)	8.5	11.9	12.7
Payout (%)	32.4	12.3	9.9
P/E (x)	76.8	48.3	39.1
P/BV (x)	10.4	8.8	7.3
EV/EBITDA (x)	31.7	26.3	22.9
EV/Sales (x)	5.2	4.6	4.2

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Lead Analyst

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Exhibit 2: Quarterly snapshot - Standalone

Y/E Mar (Rs mn)	Q1FY25	Q1FY24	YoY chg	Q3FY24	QoQ chg	FY24	FY23	YoY chg
Net Revenues	23,381	21,273	9.9	22,634	3.3	89,686	75,727	18.4
Raw Materials	9,777	9,420	3.8	9,491	3.0	38,301	32,833	16.7
% of Net Sales	41.8%	44.3%		41.9%		42.7%	43.4%	
Personnel	1,626	1,494	8.9	1,510	7.7	6,014	5,430	10.8
% of Net Sales	7.0%	7.0%		6.7%		6.7%	7.2%	
Manufacturing & Other Exp	5,402	4,651	16.1	5,178	4.3	20,488	18,175	12.7
% of Net Sales	23.1%	21.9%		22.9%		22.8%	24.0%	
Total Expenditure	16,805	15,565	8.0	16,179	3.9	64,803	56,439	14.8
EBITDA	6,576	5,708	15.2	6,455	1.9	24,883	19,288	29.0
EBITDA Margin (%)	28.1%	26.8%		28.5%		27.7%	25.5%	
Depreciation	1,094	1,089	0.5	1,124	(2.7)	4,420	4,260	3.8
EBIT	5,481	4,619	18.7	5,331	2.8	20,463	15,029	36.2
Interest Expenses	702	705	(0.5)	809	(13.2)	2,874	2,127	35.1
Non-operating income	446	472	(5.6)	346	29.0	1,623	1,505	7.9
Extraordinary Exp (inc) / Forex loss (gain)	-1,518	-221		177		-241	-579	
PBT	3,708	4,165	(11.0)	5,044	(26.5)	18,971	13,827	37.2
Tax-Total	1,014	1,050	(3.5)	1,266	(19.9)	4,703	3,373	39.4
Tax Rate (%) - Total	27.3%	25.2%		25.1%		24.8%	24.4%	
Reported PAT	2,694	3,115	(13.5)	3,778	(28.7)	14,268	10,455	36.5
Adj. PAT	3,753	3,115	20.5	3,778	(0.7)	14,385	10,767	33.6
PAT Margin	17.8%	16.4%		16.7%		16.0%	14.2%	
Key Operating Metrics								
Volume (MT)	67,501	67,780	(0.4)	67,477	0.0	2,72,335	2,46,467	10.5
Realisation / ton (Rs)	3,46,379	3,13,851	10.4	3,35,430	3.3	3,29,324	3,07,250	7.2
Gross Profit / ton (Rs)	2,01,531	1,74,880	15.2	1,94,780	3.5	1,88,684	1,74,034	8.4
Staff Cost / ton (Rs)	24,090	22,224	8.4	22,377	7.7	22,085	22,032	0.2
Other Mfg cost / ton (Rs)	88,768	74,694	18.8	76,740	15.7	75,229	73,744	2.0
EBITDA / ton (Rs)	93,085	91,187	2.1	95,663	(2.7)	91,370	78,259	16.8
Adj. Profit / ton (Rs)	61,485	51,546	19.3	55,991	9.8	52,820	43,683	20.9

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

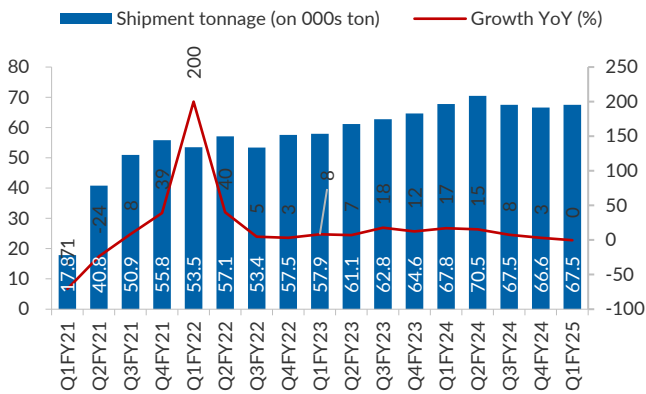
- **Outlook – India to perform better led by defence while overseas to be mixed**
 - **Domestic business to maintain the momentum in 2QFY25** across Forging, castings & Defence.
 - **CV exports** - For the Full Year, CV exports are likely to be stable with a moderately negative bias. US class 8 trucks have enough backlog and hence don't expect production impact. Overall outlook is stable from major OEMs for CY25. BHFC have seen market share gains and revenues have grown ahead of industry.
 - **CV domestic** - BFL's growth in this sector will be driven by a combination of underlying market growth coupled with growth driven by content increase. Expect FY25E to be flat to 5% growth.
 - **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.
- **New order wins in 1QFY25 at Rs9.8b**
 - **Standalone** - In 1QFY25, the Indian operations have secured new orders worth ~Rs2.05b (vs ~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 Rs7.75b across Artillery systems, Armored vehicles and consumables. The executable order book stands at ~Rs54b (vs ~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** business revenues of Rs6.42b in 1QFY25 (+147% YoY). Goal is to achieve >50% revenue growth from the segment in FY25. Order wins are across Artillery systems and MRO items.
 - **ATAGs** – huge requirement expected from replacement of guns of the old vintage in exports in addition to India opportunity. **Current order book opportunity size for India is ~350 guns with revenue potential of Rs45b. Order book split between L1:L2 is 60:40.**
 - ATAGs order are close to final and expect to conclude the order by Aug'24 end.
- **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.
- **Oil and Gas business grew QoQ** – Expect to maintain the momentum for FY25E.
- JS Auto performance in 1QFY25
 - **Revenues at Rs1.59b (+26% YoY) with EBITDA at Rs220m (+48% YoY) and EBITDA margins of 13.8% and PBT of Rs100m.** FY24 revenues at Rs5.67b with exit 4QFY24 margins at 16.5%.
 - **Expect revenues to cross Rs10b soon.**
 - **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.
- 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 forgings) which should EBITDA breakeven if not positive EBITDAM. Volume decline at the end of US customer to elongate EBITDA recovery.

Bharat Forge Ltd (BHFC)

- 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.
- **Co reported exceptional cost of Rs1.45b due to provision for impairment of an investment in Tork.** Have invested ~Rs1.5b in Tork EV so-far and would not want to invest further as losses are continued.
 - **Mundwa plant VRS** – want to reduce employee count by few hundreds as think plant is low on productivity.
 - **Fund raise will be used for growth opportunities for India/overseas business.** It would also include greenfield expansion and inorganic opportunity which is related to existing, or value add to current business.
 - **Capex** – overall for FY25/26 at Rs10b including subsidiaries.
 - New plant at KSSL will be operational in 3QFY25.

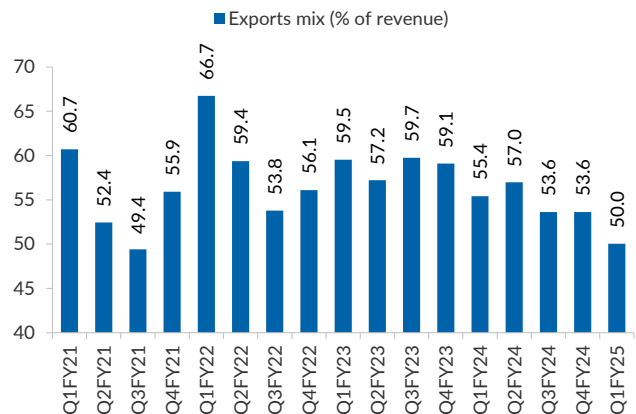
CHARTS

Exhibit 1: Tonnage declined 0.4%/+1.3% YoY/QoQ



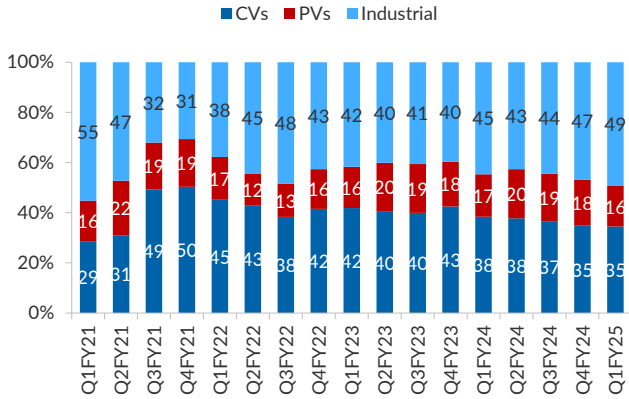
Source: Company, YES Sec

Exhibit 2: Exports revenues mix stable declined to ~50%



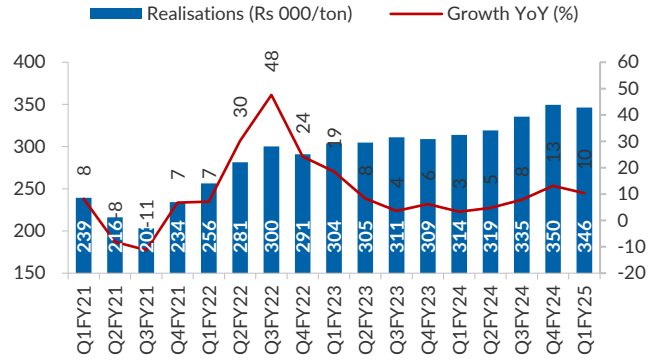
Source: Company, YES Sec

Exhibit 3: Industrial mix improved to ~49%



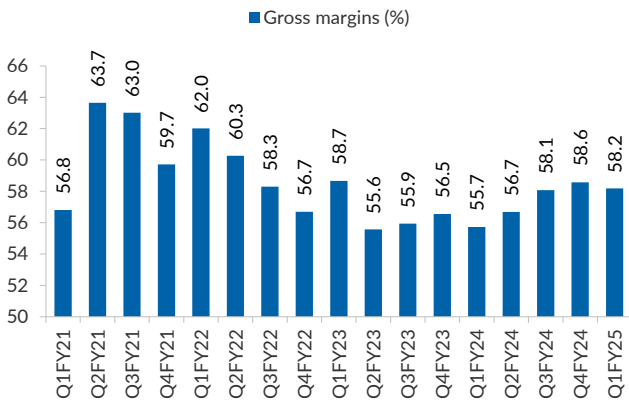
Source: Company, YES Sec

Exhibit 4: S/A ASPs fell 0.9% QoQ at ~Rs346.4k/ton



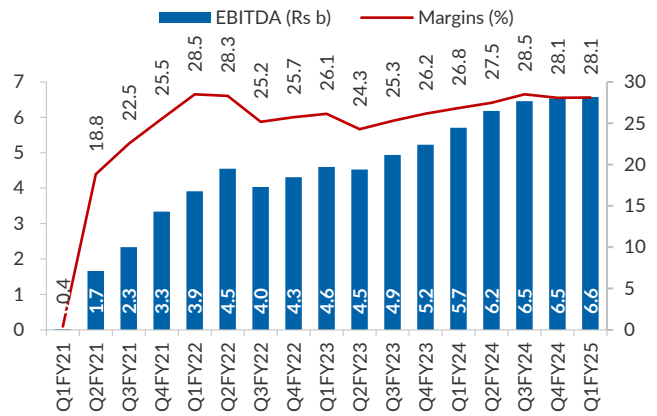
Source: Company, YES Sec

Exhibit 5: GM contracted ~40bps QoQ at 58.2%



Source: Company, YES Sec

Exhibit 6: Margin remained flat QoQ at 28.1%



Source: Company, YES Sec

CONSOLIDATED FINANCIALS

Exhibit 7: Balance Sheet

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	931	931	931	931	931	931
Total Reserves	53,220	64,775	66,124	70,771	84,369	1,01,639
Net Worth	54,151	65,707	67,055	71,702	85,300	1,02,571
Minority Interest	317	561	361	(49)	(54)	(59)
Deferred Liabilities	1,445	1,718	658	39	39	39
Total Loans	52,711	59,716	73,132	79,475	77,475	75,475
Capital Employed	1,08,624	1,27,702	1,41,206	1,51,167	1,62,760	1,78,026
Gross Block	76,753	81,923	1,01,377	1,10,200	1,24,468	1,31,968
Less: Accum. Deprn.	29,256	33,226	39,723	46,965	55,503	64,303
Net Fixed Assets	47,497	48,697	61,654	63,235	68,965	67,666
Capital WIP	9,001	11,248	6,964	9,769	5,000	5,000
Total Investments	26,070	26,040	25,691	18,493	20,493	22,493
Curr. Assets, Loans & Adv.	48,309	68,933	88,038	1,00,344	1,12,882	1,31,687
Inventory	17,939	27,105	31,263	32,161	36,267	39,715
Account Receivables	14,197	21,736	30,988	31,769	36,337	39,792
Cash and Bank Balance	4,729	6,030	10,395	16,899	7,818	16,631
Loans and Advances	11,444	14,062	15,392	19,514	32,461	35,548
Curr. Liability & Prov.	22,254	27,216	41,140	40,672	44,580	48,819
Creditors	12,068	16,314	21,513	22,621	24,225	26,528
Other Current Liabilities	7,180	8,226	17,314	14,744	16,626	18,207
Provisions	3,006	2,677	2,313	3,307	3,729	4,084
Net Current Assets	26,056	41,717	46,897	59,671	68,302	82,868
Appl. of Funds	1,08,624	1,27,702	1,41,206	1,51,167	1,62,760	1,78,026

Source: Company, YES Sec

Bharat Forge Ltd (BHFC)

Exhibit 8: Income statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	63,363	1,04,611	1,29,103	1,56,821	1,76,841	1,93,657
Change (%)	(21.3)	65.1	23.4	21.5	12.8	9.5
EBITDA	8,617	20,159	17,675	25,579	31,039	35,271
Margin (%)	13.6	19.3	13.7	16.3	17.6	18.2
Depreciation	6,122	7,303	7,356	8,482	8,538	8,800
EBIT	2,496	12,856	10,319	17,097	22,501	26,471
Int. and Finance Charges	1,077	1,604	2,986	4,912	4,699	3,758
Other Income - Rec.	1,689	1,959	1,729	2,274	2,374	2,404
Share of profit	(300)	(330)	(334)	53		
PBT bef. EO Exp.	3,107	13,211	8,727	14,513	20,176	25,117
EO Expense/(Income)	3,062	(924)	458	123	-	-
PBT after EO Exp.	45	14,135	9,185	14,636	20,176	25,117
Current Tax	1,015	3,035	3,186	5,288	5,044	6,279
Deferred Tax	-	-	-	-	-	-
Tax Rate (%)	2,246	21	35	36	25	25
Reported PAT	(970)	11,101	6,000	9,348	15,132	18,838
PAT Adj for EO items	2,415	10,375	5,701	9,269	15,132	18,838
Change (%)	(46.7)	329.6	(45.1)	62.6	63.2	24.5
Margin (%)	3.8	9.9	4.4	5.9	8.6	9.7
Less: Minority Interest	297	283	134	(464)	(329)	(296)
Net Profit	2,118	10,092	5,566	9,733	15,460	19,133

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Operating PBT	45	14,135	8,604	14,337	22,501	26,471
Depreciation	6,122	7,303	7,356	8,482	8,538	8,800
Other income	4,193	(1,510)	1,979	3,370	2,697	2,694
Direct Taxes Paid	(934)	(3,525)	(4,172)	(5,185)	(5,044)	(6,279)
(Inc)/Dec in WC	3,837	(12,269)	(363)	(4,236)	(17,713)	(5,752)
CF from Operations	13,262	4,134	13,403	16,767	10,980	25,934
CF from Operating incl EO	10,200	5,058	12,945	16,644	10,980	25,934
(inc)/dec in FA	(8,905)	(9,646)	(9,699)	(15,003)	(9,500)	(7,500)
Free Cash Flow	1,295	(4,588)	3,246	1,641	1,480	18,434
(Pur)/Sale of Investments	(6,205)	2,746	(7,015)	8,336	(2,000)	(2,000)
CF from Investments	(15,111)	(6,901)	(16,713)	(6,667)	(11,500)	(9,500)
Inc/(Dec) in Debt	6,543	6,517	8,443	6,669	(2,000)	(2,000)
Interest Paid	(760)	(1,444)	(2,387)	(4,896)	(4,699)	(3,758)
Dividend Paid	-	(1,642)	(3,253)	(3,801)	(1,863)	(1,863)
CF from Fin. Activity	5,783	3,102	2,803	(2,027)	(8,562)	(7,620)
Inc/Dec of Cash	873	1,260	(966)	7,950	(9,082)	8,814

Source- Company, YES Sec

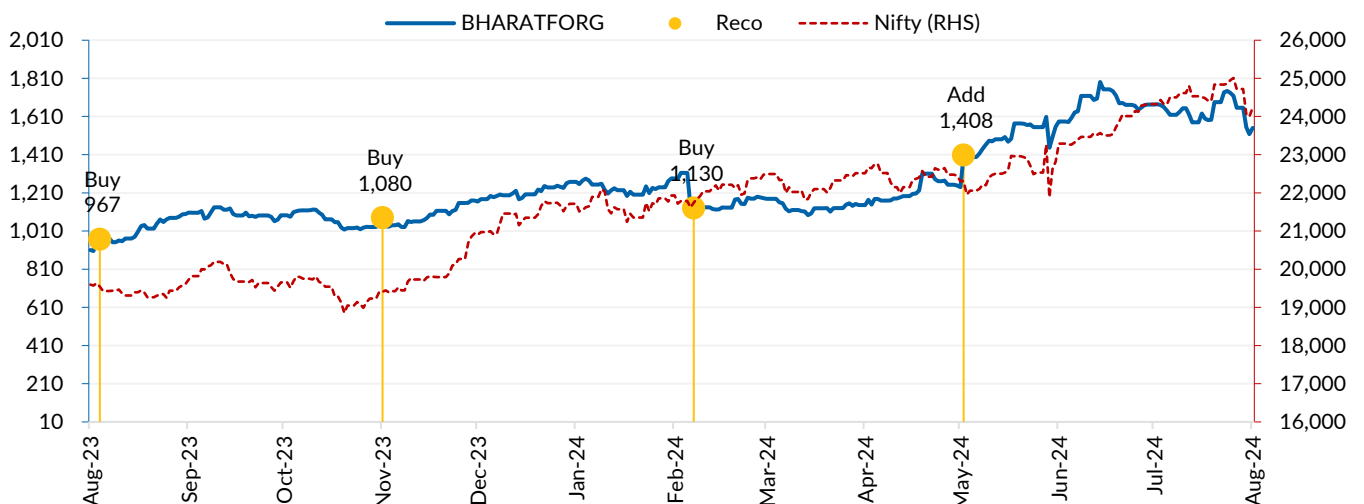
Bharat Forge Ltd (BHFC)

Exhibit 10: Key Financial Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)						
EPS	4.5	21.7	12.0	20.9	33.2	41.1
Cash EPS	18.3	38.0	28.0	38.1	50.8	59.4
BV/Share	116.3	141.1	144.0	154.0	183.2	220.3
DPS	2.0	7.0	7.0	6.5	4.0	4.0
Payout (%)	(96.0)	29.4	54.3	32.4	12.3	9.9
Valuation (x)						
P/E	352.8	74.1	134.3	76.8	48.3	39.1
P/BV	13.8	11.4	11.1	10.4	8.8	7.3
EV/Sales	12.6	7.7	6.3	5.2	4.6	4.2
EV/EBITDA	92.3	39.7	45.8	31.7	26.3	22.9
Dividend Yield (%)	0.1	0.4	0.4	0.4	0.2	0.2
Return Ratios (%)						
RoE	4.0	16.8	8.4	14.0	19.7	20.4
RoCE	3.3	10.0	5.9	8.5	11.9	12.7
RoIC	3.0	13.2	7.4	10.7	14.3	15.1
Working Capital Ratios						
Fixed Asset Turnover (x)	0.8	1.3	1.3	1.4	1.4	1.5
Inventory (Days)	103.3	94.6	88.4	74.9	74.9	74.9
Debtor (Days)	81.8	75.8	87.6	73.9	75.0	75.0
Creditor (Days)	69.5	56.9	60.8	52.7	50.0	50.0
Working Capital Turnover (Days)	122.9	124.5	103.2	99.6	124.8	124.8
Leverage Ratio (x)						
Debt/Equity	1.0	0.9	1.1	1.1	0.9	0.7

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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