

November 06, 2023

**RESULT REPORT Q2 FY24** | Sector: Automobile

# Bharat Forge Ltd

## Defence ramp-up to be healthy in rest of FY24E

### Valuation and View – Overall outlook steady to positive

Bharat Forge (BHFC) 2QFY24 results were ahead of our/street estimates by 4-9% on EBITDA. This was led by better-than-expected volumes which came in at 70.3k tons (+2% QoQ, 19 quarter high) and ASP at ~Rs320k (est Rs310k, +5% YoY/ ~2% QoQ). The positive highlight of the quarters was, 1) continued traction in the defence business with cumulative order book at ~Rs30b (v/s Rs22-23b in 1QFY24), 2) The overseas subs performance led by EU were stable (due to seasonality) with margins at ~3.5% in 2Q (v/s 4.4% in 1Q) while US subs reported loss of Rs260m (v/s Rs350m QoQ) as utilization improved to ~50% (expect break even at 70-75%). The management has hinted towards sustenance of healthy demand momentum across segments going forward led by industrial (domestic) and PV (auto exports).

With diverse presence, BHFC is better placed than its previous cycles to benefit from i) steady orders and ramp up in domestic/exports PVs and CVs and ii) healthy outlook for industrials (with strong wins in segments like Aerospace, defense, mining, agriculture). We cut FY24 EPS by 3.7% while revise FY25/26 EPS by ~2% to factor in for higher shipment and faster defence ramp-up. We reiterate BUY as one of our preferred bet among anc with revised TP of Rs1,295 (v/s Rs1,267 earlier) based on 27x to Mar'26 EPS. BHFC trades at 25.3x/22.5x of FY24/25 consol EPS (v/s 41x 10 year LPA), do not fully reflect execution in industrial segment led by defence.

### Result Highlights – Healthy volumes drive EBITDA margins beat at 27.1% (est 26%)

- SA Revenues grew 20.7% YoY (+5.7% QoQ) at ~Rs22.5b (est Rs21.5b) as tonnage grew 15%/4% YoY/QoQ at ~70.3k tons (19qtr high) while ASP grew 4.9%/1.9% YoY/QoQ at Rs319.9k/ton.
- Gross margins expanded 110bp YoY (+100bp QoQ) at 56.7% (est 55.1%). This resulted EBITDA at ~Rs6.1b (+34.7% YoY, +7% QoQ, est Rs5.6b, consRs5.9b). Consequently, EBITDA margins came in at 27.1% (+280bp YoY and +30bp QoQ, est 26%).
- Healthy operating performance resulted Adj.PAT at ~Rs3.5b (+30% YoY, +12% QoQ, est Rs3.1b, cons Rs3.4b).
- Overseas subs performance** - Europe operations EBITDA at 3.5% (v/s 4.5% QoQ) whereas overall EBITDA margins for overseas subs came in at 0.7% (v/s 1.2% QoQ).
- 1HFY24 performance** – Revenue/EBITA/PAT grew 20.8%/29.3%/28.5%.

### Exhibit 1: Actual vs estimates

| Rs mn            | Actual | Estimate |           | % variation |           | Remarks   |
|------------------|--------|----------|-----------|-------------|-----------|---|
|                  |        | Yes Sec  | Consensus | Yes Sec     | Consensus |   |
| Sales            | 22,494 | 21,460   | 22,173    | 4.8         | 1.4       | Better than expected tonnage drive beat at EBITDA.to our estimates. |
| EBITDA           | 6,095  | 5,566    | 5,871     | 9.5         | 3.8       |   |
| EBITDA margins % | 27.1   | 25.9     | 26.5      | 120bp       | 60bp      |   |
| Adjusted PAT     | 3,494  | 3,117    | 3,458     | 12.1        | 1.0       |   |

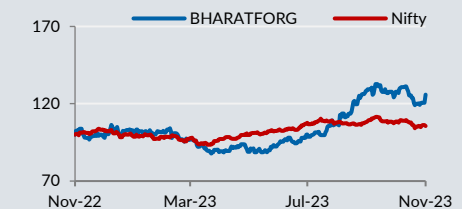
Source: Company, YES Sec

|                  |            |
|------------------|------------|
| Reco             | : BUY      |
| CMP              | : Rs 1,080 |
| Target Price     | : Rs 1,295 |
| Potential Return | : +20%     |

### Stock data (as on Nov 06, 2023)

|                         |               |
|-------------------------|---------------|
| Nifty                   | 19,412        |
| 52 Week h/l (Rs)        | 1148 / 744    |
| Market cap (Rs/USD mn)  | 479952 / 5769 |
| Outstanding Shares (mn) | 466           |
| 6m Avg t/o (Rs mn):     | 1,061         |
| Div yield (%):          | 0.7           |
| Bloomberg code:         | BHFC IN       |
| NSE code:               | BHARATFORG    |

### Stock performance



|                 | 1M     | 3M    | 1Y    |
|-----------------|--------|-------|-------|
| Absolute return | (1.5%) | 17.9% | 25.8% |

### Shareholding pattern (As of Sep'23)

|          |       |
|----------|-------|
| Promoter | 45.3% |
| FII+DII  | 44.4% |
| Others   | 10.3% |

### Δ in stance

| (1-Yr)       | New   | Old   |
|--------------|-------|-------|
| Rating       | BUY   | BUY   |
| Target Price | 1,295 | 1,267 |

### Δ in earnings estimates

|           | FY24E  | FY25E |
|-----------|--------|-------|
| EPS (New) | 32.4   | 42.7  |
| EPS (Old) | 33.7   | 41.8  |
| % change  | (3.7%) | 2.2%  |

### Financial Summary- Consolidated

| Y/E Mar (Rs b) | 2023  | 2024E | 2025E |
|----------------|-------|-------|-------|
| Sales          | 129.1 | 151.7 | 163.8 |
| EBITDA         | 17.9  | 29.5  | 34.5  |
| Adj. PAT       | 6.0   | 15.1  | 19.9  |
| EPS (INR)      | 12.9  | 32.4  | 42.7  |
| EPS Gr. (%)    | -40.3 | 150.5 | 31.8  |
| BV/Sh. (INR)   | 144.0 | 172.5 | 211.2 |
| RoE (%)        | 9.1   | 20.5  | 22.3  |
| RoCE (%)       | 5.9   | 11.9  | 13.0  |
| Payout (%)     | 57.3  | 12.4  | 9.4   |
| P/E (x)        | 83.4  | 33.3  | 25.3  |
| P/BV (x)       | 7.5   | 6.3   | 5.1   |
| EV/EBITDA (x)  | 31.5  | 19.1  | 16.2  |
| EV/Sales (x)   | 4.4   | 3.7   | 3.4   |

### DEEP SHAH

Lead Analyst

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## Exhibit 2: Quarterly snapshot - Standalone

| Y/E Mar (Rs mn)                             | Q2FY24        | Q2FY23        | YoY chg     | Q1FY24        | H1FY24        | H1FY23        | YoY chg     |
|---|---------------|---------------|-------------|---------------|---------------|---------------|-------------|
| <b>Net Revenues</b>                         | <b>22,494</b> | <b>18,639</b> | <b>20.7</b> | <b>21,273</b> | <b>43,767</b> | <b>36,233</b> | <b>20.8</b> |
| Raw Materials                               | 9,744         | 8,281         | 17.7        | 9,420         | 19,164        | 15,554        | 23.2        |
| % of Net Sales                              | 43.3%         | 44.4%         |             | 44.3%         | 43.8%         | 42.9%         |             |
| Personnel                                   | 1,506         | 1,351         | 11.5        | 1,494         | 3,000         | 2,708         | 10.8        |
| % of Net Sales                              | 6.7%          | 7.2%          |             | 7.0%          | 6.9%          | 7.5%          |             |
| Manufacturing & Other Exp                   | 5,148         | 4,481         | 14.9        | 4,651         | 9,800         | 8,845         | 10.8        |
| % of Net Sales                              | 22.9%         | 24.0%         |             | 21.9%         | 22.4%         | 24.4%         |             |
| Total Expenditure                           | 16,399        | 14,113        | 16.2        | 15,565        | 31,964        | 27,107        | 17.9        |
| <b>EBITDA</b>                               | <b>6,095</b>  | <b>4,526</b>  | <b>34.7</b> | <b>5,708</b>  | <b>11,803</b> | <b>9,126</b>  | <b>29.3</b> |
| <b>EBITDA Margin (%)</b>                    | <b>27.1%</b>  | <b>24.3%</b>  |             | <b>26.8%</b>  | <b>27.0%</b>  | <b>25.2%</b>  |             |
| Depreciation                                | 1,128         | 1,066         | 5.9         | 1,089         | 2,217         | 2,130         | 4.1         |
| <b>EBIT</b>                                 | <b>4,967</b>  | <b>3,460</b>  | <b>43.5</b> | <b>4,619</b>  | <b>9,586</b>  | <b>6,996</b>  | <b>37.0</b> |
| Interest Expenses                           | 726           | 357           | 103.2       | 705           | 1,431         | 621           | 130.6       |
| Non-operating income                        | 424           | 477           | (11.2)      | 472           | 896           | 737           | 21.6        |
| Extraordinary Exp (inc) / Forex loss (gain) | (30)          | (2)           |             | (221)         | (251)         | (282)         |             |
| PBT   | 4,635         | 3,578         | 29.5        | 4,165         | 8,800         | 6,830         | 28.8        |
| Tax-Total                                   | 1,156         | 897           | 28.8        | 1,050         | 2,206         | 1,713         | 28.8        |
| Tax Rate (%) - Total                        | 24.9%         | 25.1%         |             | 25.2%         | 25.1%         | 25.1%         |             |
| <b>Reported PAT</b>                         | <b>3,478</b>  | <b>2,681</b>  | <b>29.7</b> | <b>3,115</b>  | <b>6,593</b>  | <b>5,118</b>  | <b>28.8</b> |
| <b>Adj. PAT</b>                             | <b>3,494</b>  | <b>2,686</b>  | <b>30.1</b> | <b>3,115</b>  | <b>6,609</b>  | <b>5,145</b>  | <b>28.5</b> |
| PAT Margin                                  | 15.5%         | 14.4%         |             | 16.4%         | 15.1%         | 14.2%         |             |
| <b>Key Operating Metrics</b>                |               |               |             |               |               |               |             |
| Volume (MT)                                 | 70,316        | 61,149        | 15.0        | 67,780        | 138,096       | 119,064       | 16.0        |
| Realisation / ton (Rs)                      | 319,897       | 304,818       | 4.9         | 313,851       | 316,930       | 304,317       | 4.1         |
| Gross Profit / ton (Rs)                     | 181,322       | 169,387       | 7.0         | 174,880       | 178,160       | 173,684       | 2.6         |
| Staff Cost / ton (Rs)                       | 21,423        | 22,098        | (3.1)       | 22,224        | 21,725        | 22,743        | (4.5)       |
| Other Mfg cost / ton (Rs)                   | 73,219        | 73,275        | (0.1)       | 75,958        | 70,964        | 74,291        | (4.5)       |
| EBITDA / ton (Rs)                           | 86,680        | 74,014        | 17.1        | 89,923        | 85,470        | 76,651        | 11.5        |
| Adj. Profit / ton (Rs)                      | 49,687        | 43,919        | 13.1        | 51,546        | 47,857        | 43,212        | 10.7        |

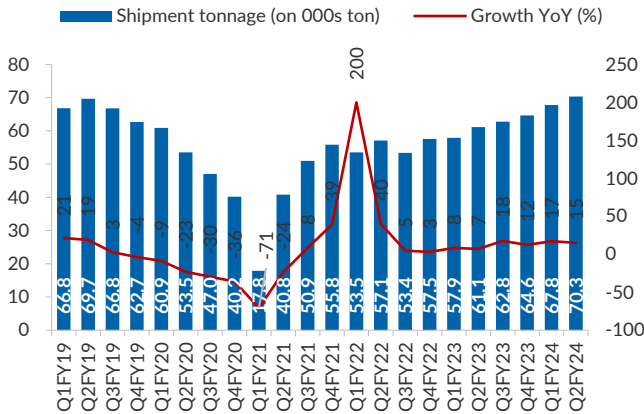
Source- Company, Yes Sec

## KEY CON-CALL HIGHLIGHTS

- **Outlook –**
  - US CV expected to be flat as Class 8 volumes are expected at 300-310k units whereas industrial segment is likely to be flat,
  - Indian – Industrial vertical growth to be positive while CV should be positive for FY25E.
- **New order wins in 1HFY24** – Standalone business won an order worth Rs7.4b in 1H (Rs5b in 2QFY24) across various segments including Rs3b from EV (for global OEMs (non 2W/3W) components and sub-systems).
- **Defence** - Order pipeline is healthy with cumulative Rs30b (v/s Rs22-23b in 1QFY24) of orders largely for exports to be executed over 24 months. KSSL secured orders worth Rs11b in 2QFY24.
  - Defence business revenues in S/A is ~Rs2b in addition to ~Rs3b in KSSL.
- **Improvement in overseas subs performance –**
  - **The European operations have posted EBITDA of Rs353m** (v/s Rs 507m in 1QFY24) led by seasonality (holiday season) with margins of 3.5% in 2Q (v/s 4.4% in 1Q) vs loss of Rs141m in 4QFY23. The goal is to take aluminum business EBITDA margins to mid-teens (by FY25).
  - **US operations performance** - EBITDA loss of Rs260m and expect to improve the same in subsequent quarters. Should achieve break even at 70-75% utilization adjusting for revised pricing. Expect US phase 2 expansion to come by 2025.
  - **Indian operations performance** – target EBITDA margins of 25% (by end of FY25E) for defence and industrial vertical.
  - **Capacity utilization** – Alu forging at ~50% for US and ~70% for Europe
- **ISML consolidation is done from 2QFY24 and the co is PAT positive.**
- **JSA performance** - new business wins of Rs550m in 2QFY24, revenues grew 28% while EBITDA grew 13% (which is including one-offs of Rs20m acquisition cost).
- **Capex spends at Rs1.7b in 1H for S/A business.**
- **Gross margins expansion was led by product mix and cost control initiatives while soft RM contribution was not much.**
- **CV segment outlook** – decline in domestic revenues QoQ is-in-line with de-stocking underway. Have been gaining market share led by new programs wins. The revenue growth momentum to continue.
- **PV segment outlook** – expects the business growth to continue led by exports plus by domestic PV OEMs.

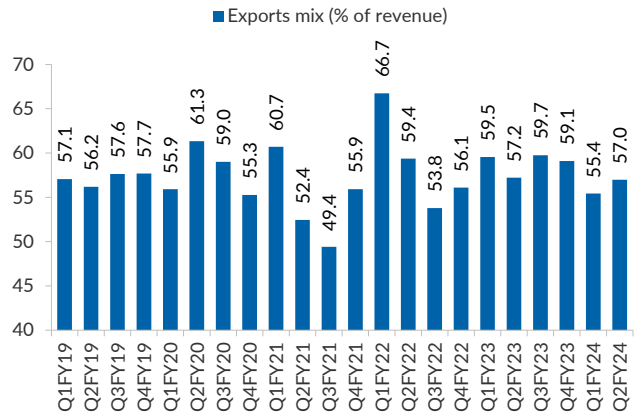
## CHARTS

**Exhibit 1: Tonnage grew 15%/4% YoY/QoQ**



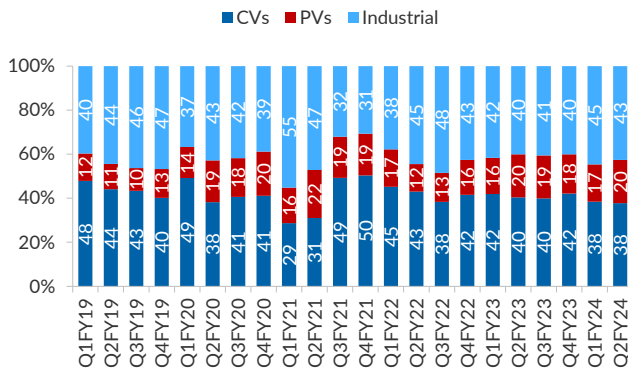
Source: Company, YES Sec

**Exhibit 2: Exports revenues mix increased 57.0%**



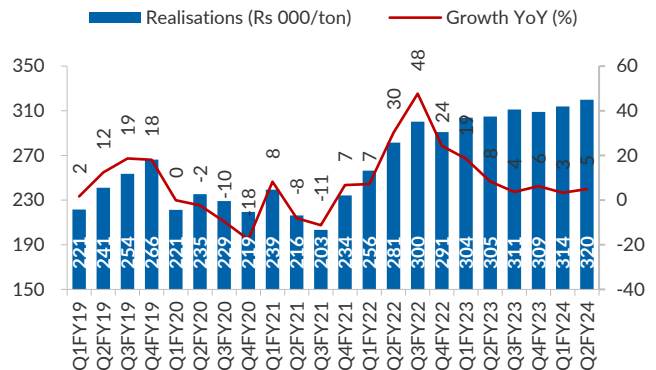
Source: Company, YES Sec

**Exhibit 3: Industrial mix improved to 43%**



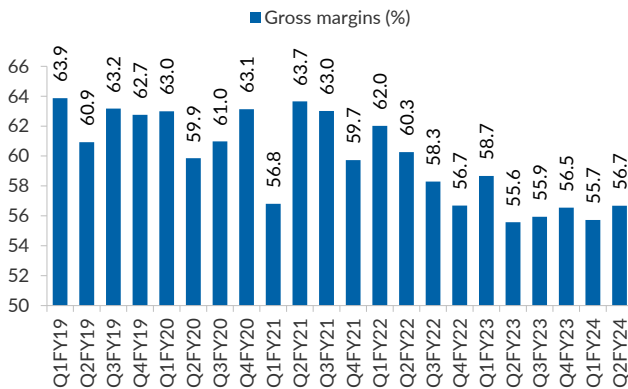
Source: Company, YES Sec

**Exhibit 4: S/A ASPs grew 1.9% QoQ at ~Rs319.9k/ton**



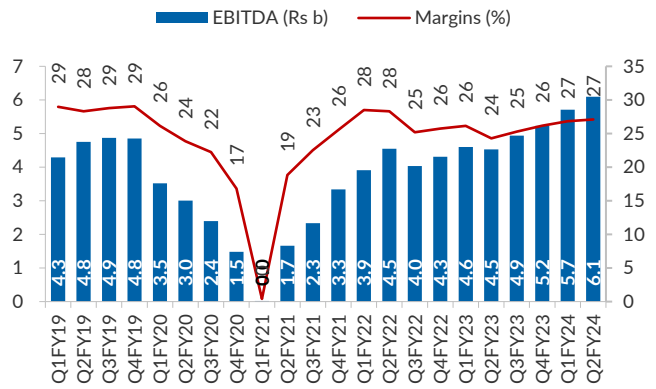
Source: Company, YES Sec

**Exhibit 5: GM expanded by ~100bps QoQ at 56.7%**



Source: Company, YES Sec

**Exhibit 6: Margin expanded by 30bp QoQ at 27.1%**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 7: Balance Sheet- Consolidated**

| Y/E March                 | FY21    | FY22    | FY23    | FY24E   | FY25E   | FY26E   |
|---------------------------|---------|---------|---------|---------|---------|---------|
| Equity Share Capital      | 931     | 931     | 931     | 931     | 931     | 931     |
| Total Reserves            | 53,220  | 64,775  | 66,124  | 79,376  | 97,419  | 117,886 |
| Net Worth                 | 54,151  | 65,707  | 67,055  | 80,308  | 98,350  | 118,817 |
| Minority Interest         | 317     | 561     | 361     | 397     | 436     | 480     |
| Deferred Liabilities      | 1,445   | 1,718   | 1,718   | 1,718   | 1,718   | 1,718   |
| Total Loans               | 52,711  | 59,716  | 73,132  | 71,132  | 69,132  | 67,132  |
| Capital Employed          | 108,624 | 127,702 | 142,266 | 153,555 | 169,637 | 188,148 |
| Gross Block               | 76,753  | 81,923  | 97,124  | 104,588 | 111,088 | 117,588 |
| Less: Accum. Deprn.       | 29,256  | 33,226  | 40,582  | 48,825  | 57,724  | 67,215  |
| Net Fixed Assets          | 47,497  | 48,697  | 56,542  | 55,763  | 53,364  | 50,373  |
| Capital WIP               | 9,001   | 11,248  | 6,964   | 4,000   | 4,000   | 4,000   |
| Total Investments         | 26,070  | 26,040  | 25,691  | 27,691  | 29,691  | 31,691  |
| Curr. Assets, Loans&Adv.  | 48,309  | 68,933  | 94,017  | 109,705 | 129,691 | 153,271 |
| Inventory                 | 17,939  | 27,105  | 31,263  | 36,724  | 44,890  | 48,775  |
| Account Receivables       | 14,197  | 21,736  | 30,988  | 35,317  | 40,401  | 43,898  |
| Cash and Bank Balance     | 4,729   | 6,030   | 10,395  | 9,826   | 14,324  | 27,919  |
| Loans and Advances        | 11,444  | 14,062  | 21,372  | 27,838  | 30,076  | 32,679  |
| Curr. Liability & Prov.   | 22,254  | 27,216  | 40,948  | 43,604  | 47,110  | 51,187  |
| Creditors                 | 12,068  | 16,314  | 21,513  | 20,775  | 22,445  | 24,388  |
| Other Current Liabilities | 7,180   | 8,226   | 17,121  | 20,112  | 21,729  | 23,610  |
| Provisions                | 3,006   | 2,677   | 2,313   | 2,717   | 2,936   | 3,190   |
| Net Current Assets        | 26,056  | 41,717  | 53,070  | 66,101  | 82,581  | 102,084 |
| Appl. of Funds            | 108,624 | 127,702 | 142,266 | 153,555 | 169,637 | 188,148 |

Source: Company, YES Sec

## Exhibit 8: Income statement- Consolidated

| Y/E March                | FY21   | FY22    | FY23    | FY24E   | FY25E   | FY26E   |
|--------------------------|--------|---------|---------|---------|---------|---------|
| Net Sales                | 63,363 | 104,611 | 129,103 | 151,656 | 163,849 | 178,030 |
| Change (%)               | (21.3) | 65.1    | 23.4    | 17.5    | 8.0     | 8.7     |
| EBITDA                   | 8,617  | 20,159  | 17,945  | 29,490  | 34,464  | 38,238  |
| Margin (%)               | 13.6   | 19.3    | 13.9    | 19.4    | 21.0    | 21.5    |
| Depreciation             | 6,122  | 7,303   | 7,356   | 8,243   | 8,898   | 9,491   |
| EBIT                     | 2,496  | 12,856  | 10,589  | 21,247  | 25,566  | 28,747  |
| Int. and Finance Charges | 1,077  | 1,604   | 2,986   | 3,092   | 1,199   | 1,122   |
| Other Income - Rec.      | 1,689  | 1,959   | 1,729   | 1,915   | 2,110   | 2,087   |
| PBT bef. EO Exp.         | 3,107  | 13,211  | 9,332   | 20,070  | 26,477  | 29,711  |
| EO Expense/(Income)      | 3,062  | (924)   | 458     | (20)    | -       | -       |
| PBT after EO Exp.        | 45     | 14,135  | 8,874   | 20,091  | 26,477  | 29,711  |
| Current Tax              | 1,015  | 3,035   | 3,186   | 5,023   | 6,619   | 7,428   |
| Deferred Tax             | -      | -       | -       | -       | -       | -       |
| Tax Rate (%)             | 2,246  | 21      | 36      | 25      | 25      | 25      |
| Reported PAT             | (970)  | 11,101  | 5,688   | 15,068  | 19,858  | 22,283  |
| PAT Adj for EO items     | 2,415  | 10,375  | 5,982   | 15,053  | 19,858  | 22,283  |
| Change (%)               | (46.7) | 329.6   | (42.3)  | 151.6   | 31.9    | 12.2    |
| Margin (%)               | 3.8    | 9.9     | 4.6     | 9.9     | 12.1    | 12.5    |
| Less: Minority Interest  | 297    | 283     | (47)    | (47)    | (47)    | (47)    |
| Net Profit               | 2,118  | 10,092  | 6,029   | 15,100  | 19,905  | 22,330  |

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement- Consolidated

| Y/E March                 | FY21     | FY22     | FY23     | FY24E    | FY25E    | FY26E   |
|---------------------------|----------|----------|----------|----------|----------|---------|
| Operating PBT             | 45       | 14,135   | 8,604    | 21,247   | 25,566   | 28,747  |
| Depreciation              | 6,122    | 7,303    | 7,356    | 8,243    | 8,898    | 9,491   |
| Other income              | 4,193    | (1,510)  | 1,979    | 1,998    | 2,196    | 2,177   |
| Direct Taxes Paid         | (934)    | (3,525)  | (4,172)  | (5,023)  | (6,619)  | (7,428) |
| (Inc)/Dec in WC           | 3,837    | (12,269) | (363)    | (13,601) | (11,983) | (5,907) |
| CF from Operations        | 13,262   | 4,134    | 13,403   | 12,865   | 18,059   | 27,080  |
| CF from Operating incl EO | 10,200   | 5,058    | 12,945   | 12,885   | 18,059   | 27,080  |
| (inc)/dec in FA           | (8,905)  | (9,646)  | (9,699)  | (4,500)  | (6,500)  | (6,500) |
| Free Cash Flow            | 1,295    | (4,588)  | 3,246    | 8,385    | 11,559   | 20,580  |
| (Pur)/Sale of Investments | (6,205)  | 2,746    | (7,015)  | (2,000)  | (2,000)  | (2,000) |
| CF from Investments       | (15,111) | (6,901)  | (16,713) | (6,500)  | (8,500)  | (8,500) |
| Inc/(Dec) in Debt         | 6,543    | 6,517    | 8,443    | (2,000)  | (2,000)  | (2,000) |
| Interest Paid             | (760)    | (1,444)  | (2,387)  | (3,092)  | (1,199)  | (1,122) |
| Dividend Paid             | -        | (1,642)  | (3,253)  | (1,863)  | (1,863)  | (1,863) |
| CF from Fin. Activity     | 5,783    | 3,102    | 2,803    | (6,954)  | (5,061)  | (4,985) |
| Inc/Dec of Cash           | 873      | 1,260    | (966)    | (569)    | 4,498    | 13,595  |

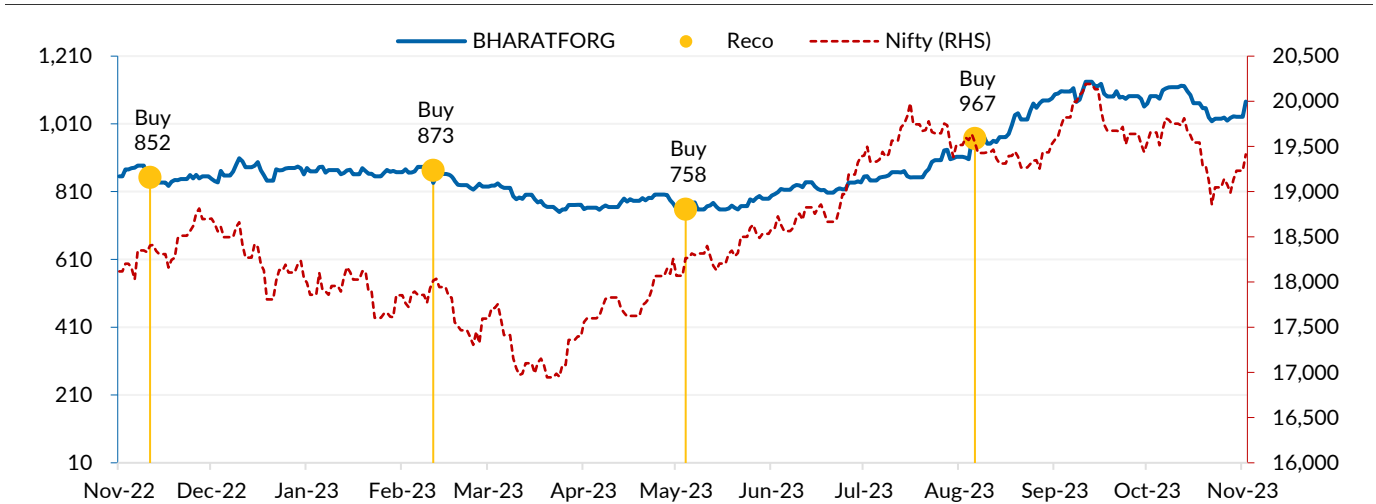
Source- Company, Yes Sec

**Exhibit 10: Growth and Ratio matrix- Consolidated**

| Y/E March                       | FY21   | FY22  | FY23  | FY24E | FY25E | FY26E |
|---------------------------------|--------|-------|-------|-------|-------|-------|
| <b>Basic (INR)</b>              |        |       |       |       |       |       |
| EPS                             | 4.5    | 21.7  | 12.9  | 32.4  | 42.7  | 48.0  |
| Cash EPS                        | 18.3   | 38.0  | 28.6  | 50.0  | 61.8  | 68.2  |
| BV/Share                        | 116.3  | 141.1 | 144.0 | 172.5 | 211.2 | 255.2 |
| DPS                             | 2.0    | 7.0   | 7.0   | 4.0   | 4.0   | 4.0   |
| Payout (%)                      | (96.0) | 29.4  | 57.3  | 12.4  | 9.4   | 8.4   |
| <b>Valuation (x)</b>            |        |       |       |       |       |       |
| P/E                             | 237.4  | 49.8  | 83.4  | 33.3  | 25.3  | 22.5  |
| P/BV                            | 9.3    | 7.7   | 7.5   | 6.3   | 5.1   | 4.2   |
| EV/Sales                        | 8.7    | 5.3   | 4.4   | 3.7   | 3.4   | 3.0   |
| EV/EBITDA                       | 63.9   | 27.6  | 31.5  | 19.1  | 16.2  | 14.2  |
| Dividend Yield (%)              | 0.2    | 0.6   | 0.6   | 0.4   | 0.4   | 0.4   |
| <b>Return Ratios (%)</b>        |        |       |       |       |       |       |
| RoE                             | 4.0    | 16.8  | 9.1   | 20.5  | 22.3  | 20.6  |
| RoCE                            | 3.3    | 10.0  | 5.9   | 11.9  | 13.0  | 13.1  |
| RoIC                            | 3.0    | 13.2  | 7.4   | 15.1  | 16.4  | 17.5  |
| <b>Working Capital Ratios</b>   |        |       |       |       |       |       |
| Fixed Asset Turnover (x)        | 0.8    | 1.3   | 1.3   | 1.5   | 1.5   | 1.5   |
| Inventory (Days)                | 103.3  | 94.6  | 88.4  | 88.4  | 100.0 | 100.0 |
| Debtor (Days)                   | 81.8   | 75.8  | 87.6  | 85.0  | 90.0  | 90.0  |
| Creditor (Days)                 | 69.5   | 56.9  | 60.8  | 50.0  | 50.0  | 50.0  |
| Working Capital Turnover (Days) | 122.9  | 124.5 | 120.6 | 135.4 | 152.1 | 152.1 |
| <b>Leverage Ratio (x)</b>       |        |       |       |       |       |       |
| Debt/Equity                     | 1.0    | 0.9   | 1.1   | 0.9   | 0.7   | 0.6   |

Source- Company, Yes Sec

## Recommendation Tracker



Source - YES Sec



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