

June 7, 2021

## Q4FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	701		602	
Sales (Rs. m)	94,344	1,08,332	91,821	1,05,119
% Chng.	2.7	3.1		
EBITDA (Rs. m)	16,854	21,068	15,869	19,602
% Chng.	6.2	7.5		
EPS (Rs.)	20.7	27.0	19.4	25.1
% Chng.	6.7	7.5		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	80,558	63,363	94,344	1,08,332
EBITDA (Rs. m)	11,147	8,617	16,854	21,068
Margin (%)	13.8	13.6	17.9	19.4
PAT (Rs. m)	4,106	2,415	9,653	12,562
EPS (Rs.)	8.8	5.2	20.7	27.0
Gr. (%)	(60.2)	(41.2)	299.7	30.1
DPS (Rs.)	2.0	2.0	3.0	4.0
Yield (%)	0.3	0.3	0.4	0.5
RoE (%)	7.8	4.5	16.6	18.5
RoCE (%)	6.2	2.6	10.6	13.5
EV/Sales (x)	4.8	6.2	4.1	3.5
EV/EBITDA (x)	34.5	45.7	22.7	17.9
PE (x)	85.2	144.8	36.2	27.8
P/BV (x)	6.7	6.5	5.6	4.8

### Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.758 / Rs.306
Sensex / Nifty	52,100 / 15,670
Market Cap	Rs.350bn / \$ 4,789m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.2795.03m

### Shareholding Pattern (%)

Promoter's	45.76
Foreign	24.94
Domestic Institution	12.17
Public & Others	17.13
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	18.9	36.0	120.2
Relative	10.1	17.7	43.6

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## Valuations overshadow positive demand outlook

### Quick Pointers:

- Healthy demand outlook for both domestic and exports auto industry; industrial segment (along with Oil & Gas) to pick up in near to mid term.
- Current capacity utilization at ~65%; can achieve quarterly revenue runrate of Rs20b with current capacities.

**BHFC's 4QFY21 result beat estimates on all fronts as Revenue/EBITDA/Adj. PAT came higher by 10%/23%/43% over PLe. This was led by i) 39% YoY growth in tonnage (due to strong traction in auto demand for both domestic/exports), ii) 7% YoY growth in realizations (better mix and RM inflation price through) and iii) cost control. Outlook for auto segment remained strong, benefitted by visible growth in Class 8 truck demand in FY22 along with ramp-up in domestic CV/sPVs. This coupled with healthy outlook for industrial (with improvement in global Oil & Gas), has placed BHFC better than previous cycles. However, the same is well captured in recent valuations expansions at 36.2x/27.8x FY22/23 consol EPS. Factoring all this, we have increased target multiple for BHFC to 26x of FY23 EPS (v/s 24x earlier) and upgraded FY22/23 EPS estimate by 6.7%/7.5%. Hence we maintain Hold with a revised TP of Rs701 (earlier Rs602).**

**BHFC Q4FY21 S/A revenue beat estimates at Rs13.1b (+48% YoY, PLe Rs11.8b) led by 39% YoY tonnage growth and 7% YoY/15% QoQ growth in realizations at Rs2.34L/ton (PLe Rs2.11L/ton). Domestic/exports revenue grew ~53%/50% YoY. Revenue from auto/ non-auto segment grew by ~70%/18% YoY.**

**S/A margins 7 quarters high at 25.5% (+300bp QoQ, PLe 23%)**- Despite 340bp YoY/330bp QoQ decline in gross margins at 59.7% (PLe 61.8%), EBITDA came higher at Rs3.3b (+43% QoQ, PLe Rs2.7b) led by better cost control and operating leverage. Better operating performance partially offset by higher tax rate at 25.6% (PLe 23.9%) led to Adj. PAT beat at Rs2.1b (v/s Rs969b in Q3FY21, PLe Rs1.4b).

Net D/E declined to Rs17.4b in FY21 (v/s Rs13.6b in FY20). Consol FY21 Revenue/EBITDA/Adj PAT declined 21%/23%/41% YoY respectively.

**Key con-call takeaways: 1) Demand outlook- Domestic-** Expect auto demand to return to normalcy by H2FY22. **2) Exports-** Exports are doing well with ramp up in both PVs/CVs in near term and O&G segment too are coming back (expected to reach 50% of peak volume). Expect CY21 class 8 trucks production at 3Lac units. **3) Current utilization level at 65%.** Plans to achieve quarterly revenue run rate of Rs20b with current capacities (v/s Rs13b in Q4FY21). **4) FY22 overall capex estimated at Rs2.5b.** Capex cycle for Aluminum forging (North Carolina) will end and facility will start from end of CY21. **5) Acquired 70 hectares of land in Khed district** in MH – Rs2.4b cost of acquisition. This should take place over 2-3 yrs. **7) Working on government order** at short notice for Specialty vehicles, systems and aggregates. Have received 1 order for specialty vehicles and working on another.

**Exhibit 1: Q4FY21 Result Overview (Rs m) - Standalone**

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
<b>Net Revenues</b>	<b>13,073</b>	<b>8,812</b>	<b>48.4</b>	<b>10,357</b>	<b>36,515</b>	<b>45,639</b>	<b>(20.0)</b>
Raw Materials	5,266	3,249	62.1	3,831	14,145	17,489	(19.1)
<i>% of Net Sales</i>	<i>40.3</i>	<i>36.9</i>		<i>37.0</i>	<i>38.7</i>	<i>38.3</i>	
Personnel	1,134	1,189	(4.6)	1,102	4,482	4,824	(7.1)
<i>% of Net Sales</i>	<i>8.7</i>	<i>13.5</i>		<i>10.6</i>	<i>12.3</i>	<i>10.6</i>	
Manufacturing & Other Exp	3,336	2,892	15.3	3,092	10,540	12,927	(18.5)
<i>% of Net Sales</i>	<i>25.5</i>	<i>32.8</i>		<i>29.9</i>	<i>28.9</i>	<i>28.3</i>	
Total Expenditure	9,736	7,330	32.8	8,024	29,167	35,240	(17.2)
<b>EBITDA</b>	<b>3,338</b>	<b>1,482</b>	<b>125.2</b>	<b>2,333</b>	<b>7,348</b>	<b>10,399</b>	<b>(29.3)</b>
<i>EBITDA Margin (%)</i>	<i>25.5</i>	<i>16.8</i>		<i>22.5</i>	<i>20.1</i>	<i>22.8</i>	
Depreciation	1,006	847	18.8	964	3,661	3,449	6.1
<b>EBIT</b>	<b>2,332</b>	<b>635</b>	<b>267.2</b>	<b>1,369</b>	<b>3,687</b>	<b>6,950</b>	<b>(47.0)</b>
Interest Expenses	137	415	(67.1)	268	779	1,450	(46.3)
Non-operating income	320	315	1.5	352	1,405	1,609	(12.7)
Extraordinary Expenses	245	-1,318		-239	-163	-1,183	
<b>PBT</b>	<b>2,760</b>	<b>-783</b>	<b>(452.4)</b>	<b>1,214</b>	<b>4,149</b>	<b>5,926</b>	<b>(30.0)</b>
Tax-Total	705	-50	(1,502.3)	287	1,028	1,191	(13.7)
<i>Tax Rate (%) - Total</i>	<i>25.6</i>	<i>6.4</i>		<i>23.6</i>	<i>24.8</i>	<i>20.1</i>	
<b>Reported PAT</b>	<b>2,054</b>	<b>-733</b>	<b>(380.3)</b>	<b>927</b>	<b>3,121</b>	<b>4,735</b>	<b>(34.1)</b>
<b>Adj. PAT</b>	<b>2,060</b>	<b>146</b>	<b>1,312.1</b>	<b>969</b>	<b>3,192</b>	<b>5,614</b>	<b>(43.1)</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	FY21	FY20	YoY gr. (%)
Volume (MT)	55,837	40,173	39.0	50,943	1,65,395	2,01,586	(18.0)
Realisation / ton (Rs)	2,34,136	2,19,346	6.7	2,03,312	2,20,775	2,26,399	(2.5)
Gross Profit / ton (Rs)	1,39,831	1,38,479	1.0	1,28,119	1,35,255	1,39,642	(3.1)
Staff Cost / ton (Rs)	20,315	29,599	(31.4)	21,635	27,101	23,928	13.3
Other Mfg cost / ton (Rs)	59,737	71,990	(17.0)	60,691	63,729	64,127	(0.6)
EBITDA / ton (Rs)	59,779	36,890	62.0	45,793	44,426	51,586	(13.9)
Adj. Profit / ton (Rs)	36,901	3,632	915.9	19,018	19,297	27,849	(30.7)
<b>Domestic / Export Mix</b>							
Domestic sales	5,653	3,703	52.7	5,158	16,388	17,818	(8.0)
<i>% of net sales</i>	<i>43.6</i>	<i>43.2</i>		<i>50.2</i>	<i>44.9</i>	<i>39.0</i>	
Exports	7,310	4,869	50.1	5,117	19,642	26,475	(25.8)
<i>% of net sales</i>	<i>56.4</i>	<i>56.8</i>		<i>49.8</i>	<i>53.8</i>	<i>58.0</i>	

Source: Company, PL

**Exhibit 3: Segmental Breakup (Rs m)**

Y/e March	Q4FY21	Q4FY20	YoY gr. (%)	Q3FY21	QoQ gr. (%)
<b>Auto Domestic</b>					
CV	2,222	980	126.7	1,652	34.5
PV	691	542	27.5	778	(11.2)
<b>Auto Exports</b>					
CV	3,958	2,389	65.7	3,167	25.0
PV	1,637	1,105	48.1	1,053	55.5
<b>Non- Auto Domestic</b>					
Non-Auto Domestic	2,049	1,782	15.0	2,249	(8.9)
<b>Non-Auto Exports</b>					
Non-Auto Exports	1,715	1,402	22.3	898	91.0

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>80,558</b>	<b>63,363</b>	<b>94,344</b>	<b>1,08,332</b>
YoY gr. (%)	(20.6)	(21.3)	48.9	14.8
Total Expenditure	69,411	54,745	77,491	87,264
% Revenue	86.2	86.4	82.1	80.6
<b>EBITDA</b>	<b>11,147</b>	<b>8,617</b>	<b>16,854</b>	<b>21,068</b>
YoY gr. (%)	(45.8)	(22.7)	95.6	25.0
Margin (%)	13.8	13.6	17.9	19.4
Depreciation and Amortization	5,477	6,122	5,584	5,818
<b>EBIT</b>	<b>5,670</b>	<b>2,496</b>	<b>11,270</b>	<b>15,250</b>
Margin (%)	7.0	3.9	11.9	14.1
Net Interest	1,713	1,077	846	749
Other Income	1,879	1,689	2,613	2,817
<b>Profit Before Tax</b>	<b>5,046</b>	<b>45</b>	<b>13,037</b>	<b>17,318</b>
Margin (%)	6.3	0.1	13.8	16.0
Total Tax	1,125	1,015	3,384	4,756
Effective tax rate (%)	22.3	2,245.8	26.0	27.5
<b>Profit after tax</b>	<b>3,921</b>	<b>(970)</b>	<b>9,653</b>	<b>12,562</b>
Minority interest	429	300	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,106</b>	<b>2,415</b>	<b>9,653</b>	<b>12,562</b>
YoY gr. (%)	(60.2)	(41.2)	299.7	30.1
Margin (%)	5.1	3.8	10.2	11.6
Extra Ord. Income / (Exp)	(613)	65,712	-	-
<b>Reported PAT</b>	<b>3,492</b>	<b>(1,270)</b>	<b>9,653</b>	<b>12,562</b>
YoY gr. (%)	(66.2)	(136.4)	(860.3)	30.1
Margin (%)	4.3	(2.0)	10.2	11.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,492	(1,270)	9,653	12,562
<b>Equity Shares O/s (m)</b>	<b>466</b>	<b>466</b>	<b>466</b>	<b>466</b>
<b>EPS (Rs)</b>	<b>8.8</b>	<b>5.2</b>	<b>20.7</b>	<b>27.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>64,017</b>	<b>77,618</b>	<b>89,119</b>	<b>93,119</b>
Tangibles	64,017	77,618	89,119	93,119
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>24,000</b>	<b>30,121</b>	<b>35,705</b>	<b>41,523</b>
Tangibles	24,000	30,121	35,705	41,523
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>40,017</b>	<b>47,497</b>	<b>53,414</b>	<b>51,596</b>
Tangibles	40,017	47,497	53,414	51,596
Intangibles	-	-	-	-
Capital Work In Progress	11,427	9,001	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	16,182	26,070	28,070	30,070
Net Deferred tax assets	(507)	(1,445)	(1,445)	(1,445)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	17,347	17,939	20,678	23,744
Trade receivables	14,938	14,197	15,509	17,808
Cash & Bank Balance	5,751	4,729	12,921	16,230
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>1,14,823</b>	<b>1,30,878</b>	<b>1,45,034</b>	<b>1,58,850</b>
<b>Equity</b>				
Equity Share Capital	931	931	931	931
Other Equity	51,266	53,220	61,476	72,176
<b>Total Networth</b>	<b>52,197</b>	<b>54,151</b>	<b>62,408</b>	<b>73,107</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	40,735	48,554	46,554	44,554
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	10,309	12,068	12,924	14,840
Other current liabilities	10,755	14,342	21,354	24,520
<b>Total Equity &amp; Liabilities</b>	<b>1,14,823</b>	<b>1,30,878</b>	<b>1,45,034</b>	<b>1,58,850</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	5,046	45	11,270	15,250
Add. Depreciation	5,477	6,122	5,584	5,818
Add. Interest	3,209	4,193	2,645	2,851
Less Financial Other Income	1,879	1,689	2,613	2,817
Add. Other	(789)	(3,062)	-	-
Op. profit before WC changes	12,943	7,298	19,499	23,920
Net Changes-WC	4,607	3,837	1,821	(5,244)
Direct tax	(2,331)	(934)	(3,384)	(4,756)
<b>Net cash from Op. activities</b>	<b>15,220</b>	<b>10,200</b>	<b>17,936</b>	<b>13,920</b>
Capital expenditures	(9,571)	(8,905)	(3,500)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(1,751)	(6,205)	(2,000)	(2,000)
<b>Net Cash from Inv. activities</b>	<b>(11,322)</b>	<b>(15,111)</b>	<b>(5,500)</b>	<b>(6,000)</b>
Issue of share cap. / premium	30	-	-	-
Debt changes	1,169	6,983	(2,000)	(2,000)
Dividend paid	(3,335)	-	(1,397)	(1,863)
Interest paid	(1,678)	(1,200)	(846)	(749)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(3,814)</b>	<b>5,783</b>	<b>(4,243)</b>	<b>(4,612)</b>
<b>Net change in cash</b>	<b>83</b>	<b>873</b>	<b>8,193</b>	<b>3,309</b>
Free Cash Flow	5,648	1,295	14,436	9,920

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Net Revenue</b>	<b>4,270</b>	<b>8,815</b>	<b>10,357</b>	<b>13,073</b>
YoY gr. (%)	(68.3)	(30.0)	(3.8)	48.4
Raw Material Expenses	1,844	3,204	3,831	5,266
Gross Profit	2,425	5,611	6,527	7,808
Margin (%)	56.8	63.7	63.0	59.7
<b>EBITDA</b>	<b>17</b>	<b>1,660</b>	<b>2,333</b>	<b>3,338</b>
YoY gr. (%)	(99.5)	(44.7)	(2.5)	125.2
Margin (%)	0.4	18.8	22.5	25.5
Depreciation / Depletion	808	883	964	1,006
<b>EBIT</b>	<b>(791)</b>	<b>777</b>	<b>1,369</b>	<b>2,332</b>
Margin (%)	(18.5)	8.8	13.2	17.8
Net Interest	299	75	268	137
Other Income	374	219	168	573
<b>Profit before Tax</b>	<b>(716)</b>	<b>892</b>	<b>1,214</b>	<b>2,760</b>
Margin (%)	(16.8)	10.1	11.7	21.1
Total Tax	(153)	189	287	705
Effective tax rate (%)	21.4	21.2	23.6	25.6
<b>Profit after Tax</b>	<b>(563)</b>	<b>702</b>	<b>927</b>	<b>2,054</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(563)</b>	<b>725</b>	<b>969</b>	<b>2,060</b>
YoY gr. (%)	(132.3)	(70.4)	(24.2)	1,312.1
Margin (%)	(13.2)	8.2	9.4	15.8
Extra Ord. Income / (Exp)	-	(23)	(42)	(6)
<b>Reported PAT</b>	<b>(563)</b>	<b>702</b>	<b>927</b>	<b>2,054</b>
YoY gr. (%)	(132.3)	(71.3)	(27.5)	(380.3)
Margin (%)	(13.2)	8.0	9.0	15.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(563)</b>	<b>702</b>	<b>927</b>	<b>2,054</b>
Avg. Shares O/s (m)	466	466	466	466
<b>EPS (Rs)</b>	<b>(1.2)</b>	<b>1.6</b>	<b>2.1</b>	<b>4.4</b>

Source: Company Data, PL Research

**Key Financial Metrics**

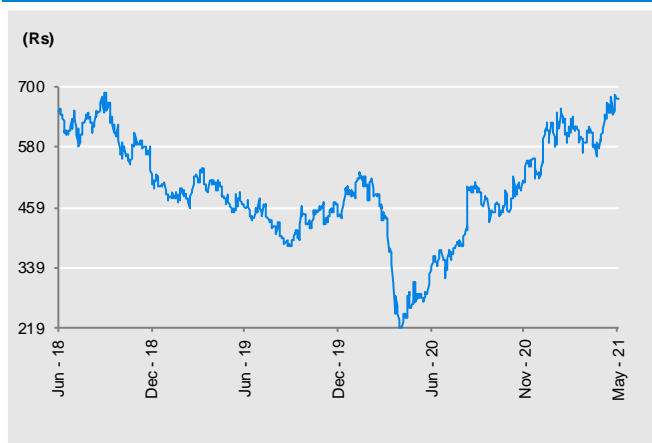
Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	8.8	5.2	20.7	27.0
CEPS	20.6	18.3	32.7	39.5
BVPS	112.1	116.3	134.0	157.0
FCF	12.1	2.8	31.0	21.3
DPS	2.0	2.0	3.0	4.0
<b>Return Ratio(%)</b>				
RoCE	6.2	2.6	10.6	13.5
ROIC	5.1	(57.5)	9.0	11.4
RoE	7.8	4.5	16.6	18.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.8	0.5	0.4
Net Working Capital (Days)	100	116	90	90
<b>Valuation(x)</b>				
PER	85.2	144.8	36.2	27.8
P/B	6.7	6.5	5.6	4.8
P/CEPS	36.5	41.0	22.9	19.0
EV/EBITDA	34.5	45.7	22.7	17.9
EV/Sales	4.8	6.2	4.1	3.5
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY20	FY21	FY22E	FY23E
Shipment Tonnage (tons)	2,01,586	1,65,396	1,98,475	2,34,201
Realisation (Rs/ton)	2,26,399	2,20,774	2,52,646	2,74,967

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Apr-21	Hold	602	619
2	14-Feb-21	Hold	581	640
3	11-Jan-21	Hold	515	603
4	11-Nov-20	Hold	439	500
5	09-Oct-20	Hold	446	466
6	12-Aug-20	Hold	401	436
7	11-Jul-20	Hold	347	355
8	29-Jun-20	Hold	330	317

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	149	113
2	Bajaj Auto	Hold	3,795	3,836
3	Bharat Forge	Hold	602	619
4	CEAT	Accumulate	1,472	1,340
5	Eicher Motors	Accumulate	2,895	2,604
6	Endurance Technologies	BUY	1,615	1,396
7	Exide Industries	BUY	227	178
8	Hero Motocorp	Accumulate	3,392	2,861
9	Mahindra & Mahindra	BUY	950	846
10	Maruti Suzuki	BUY	7,619	6,569
11	Motherson Sumi Systems	BUY	311	269
12	Tata Motors	Reduce	279	332
13	TVS Motors	BUY	658	566

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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