

## Penal action on German subsidiaries...

Bharat Forge (BFL) has notified that its German subsidiaries (Bharat Forge Aluminiumtechnik GmbH, Bharat Forge CDP GmbH and Bharat Forge Global Holding GmbH) have reached a settlement with the German competition regulator for potential unfair trade practices in 2004-18. BFL's German subsidiaries are required to pay in aggregate €32 million (~₹ 300 crore) as settlement charges over the next five years. The said judgement comes as a negative surprise. As per our estimates, this could potentially hit the company's P&L in a gradual manner over the next five years.

## Valuation & Outlook

Given the total quantum of penalty that is to the tune of €32 million (~₹ 300 crore), we expect the payout quantum to be progressively gradual in nature. We assume an exceptional charge of ₹ 30 crore, ₹ 60 crore, ₹ 70 crore for FY21E, FY22E, FY23E, respectively. It will lead to a downward revision in our earnings estimates by ~10% in FY22E & ~7% in FY23E. Keeping the same valuation multiples i.e. 30x P/E on FY23E revised EPS of ₹ 17, we assign a revised target price of ₹ 510 on Bharat Forge (from ₹ 550 earlier) and maintain our **HOLD** rating on the stock.

Exhibit 1: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	5,808	5,808	0.0	7,509	7,509	0.0	9,053	9,053	0.0
EBITDA	610	610	0.0	1,224	1,224	0.0	1,693	1,693	0.0
EBITDA Margin (%)	10.5	10.5	0 bps	16.3	16.3	0 bps	18.7	18.7	0 bps
PAT	37	13	-66.0	490	440	-10.3	851	790	-7.2
EPS (₹)	0.8	0.3	-66.0	10.5	9.4	-10.3	18.3	17.0	-7.2

Source: ICICI Direct Research

With the bulk of target customer segments viz. domestic CV, global CV space (improved new order readings of Class 8 trucks with November 2020 print coming in at ~53,000 units (~3x YoY, up ~30% MoM)), bottoming out, we expect a rapid recovery at Bharat Forge, a large part of which is captured by its prevailing valuation multiples (trading at ~32x P/E on FY23E numbers). We will keenly monitor any surprise on the operating margin front consequent to a lot of cost cutting initiatives undertaken by the company, before any meaningful upgrade. We also await outcome on scrappage policy as well as contours on the recently announced PLI scheme for the automobile sector (~₹ 57,000 crore for automobile, auto components sector), keeping in mind that BFL could be a potential beneficiary under both.

## Key Financial Summary

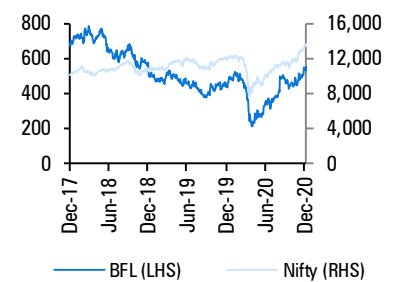
Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	10,145.7	8,055.8	5,808.1	7,509.2	9,052.8	4.0%
EBITDA	2,055.6	1,114.8	609.8	1,224.0	1,692.9	14.9%
EBITDA Margins (%)	20.3	13.8	10.5	16.3	18.7	
Net Profit	1,032.6	349.2	12.6	439.6	790.0	31.3%
EPS (₹)	22.2	7.5	0.3	9.4	17.0	
P/E	24.1	71.3	NM	56.7	31.5	
RoNW (%)	19.1	7.8	0.8	8.8	14.0	
RoCE (%)	15.5	5.6	0.3	6.0	9.9	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization	₹ 24908 Crore
Total Debt (FY20)	₹ 4348.4Crore
Cash and Inv. (FY20)	₹ 1641.2Crore
EV	₹ 27615.2crore
52 week H/L (₹)	568 / 208
Equity capital	₹ 93.1 Crore
Face value	₹ 2

## Price Performance



## Key highlights

- German authorities impose penalty of ₹ 32 million on three BFL subsidiaries in relation to unfair trade practices
- Maintain HOLD recommendation with revised target price of ₹ 510

## Risks to our call

- Key negative risk to our call is further margin erosion in EU operations amid potential re-negotiation of contracts
- Key positive risk to our call is mandatory & incentive based scrappage policy (domestically)

## Research Analyst

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

Jaimin Desai  
jaimin.desai@icicisecurities.com

## Financial summary (Consolidated)

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating income</b>	<b>8055.8</b>	<b>5808.1</b>	<b>7509.2</b>	<b>9052.8</b>
Growth (%)	-20.6	-27.9	29.3	20.6
Raw Material Expenses	3,576.4	2,671.7	3,491.8	4,164.3
Employee Expenses	1,195.5	1,016.4	1,126.4	1,267.4
Other expenses	2,169.1	1,510.1	1,667.1	1,928.2
Total Operating Expenditure	6,941.1	5,198.2	6,285.2	7,359.9
<b>EBITDA</b>	<b>1,114.8</b>	<b>609.8</b>	<b>1,224.0</b>	<b>1,692.9</b>
Growth (%)	-45.8	-45.3	100.7	38.3
Depreciation	547.7	580.8	619.5	679.0
Interest	171.3	150.4	163.9	147.9
Other Income	187.9	167.2	167.0	176.8
<b>PBT</b>	<b>583.6</b>	<b>45.8</b>	<b>607.6</b>	<b>1,042.8</b>
Others	-43	5	13	0
Total Tax	112.5	2.2	120.5	214.0
<b>PAT</b>	<b>349.2</b>	<b>12.6</b>	<b>439.6</b>	<b>790.0</b>
Growth (%)	-66.2	-96.4	NM	79.7
<b>EPS (₹)</b>	<b>7.5</b>	<b>0.3</b>	<b>9.4</b>	<b>17.0</b>

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>349.2</b>	<b>12.6</b>	<b>439.6</b>	<b>790.0</b>
Add: Depreciation	547.7	580.8	619.5	679.0
(Inc)/dec in Current Assets	893.3	736.4	-566.7	-620.7
Inc/(dec) in CL and Provisions	-270.7	-359.4	219.5	278.3
<b>CF from operating activities</b>	<b>1690.8</b>	<b>1120.9</b>	<b>875.9</b>	<b>1274.5</b>
(Inc)/dec in Investments	-525.8	-250.0	0.0	-150.0
(Inc)/dec in Fixed Assets	-1101.3	-450.0	-250.0	-250.0
Others	385.1	22.9	-178.9	-133.7
<b>CF from investing activities</b>	<b>-1242.0</b>	<b>-677.1</b>	<b>-428.9</b>	<b>-533.7</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	416.2	-50.0	-200.0	-400.0
Dividend paid & dividend tax	-196.1	0.0	-186.2	-279.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-569.3	-150.4	-163.9	-147.9
<b>CF from financing activities</b>	<b>-349.2</b>	<b>-200.4</b>	<b>-550.2</b>	<b>-827.3</b>
Net Cash flow	99.7	243.3	-103.1	-86.5
Opening Cash	475.4	575.1	818.4	715.3
<b>Closing Cash</b>	<b>575.1</b>	<b>818.4</b>	<b>715.3</b>	<b>628.8</b>

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	93.1	93.1	93.1	93.1
Reserve and Surplus	5,158.6	5,171.2	5,424.6	5,935.3
<b>Total Shareholders funds</b>	<b>5,251.7</b>	<b>5,264.3</b>	<b>5,517.7</b>	<b>6,028.4</b>
Total Debt	4,348.4	4,298.4	4,098.4	3,698.4
Deferred Tax Liability	131.1	131.1	131.1	131.1
Minority Interest / Others	337.9	337.9	337.9	337.9
<b>Total Liabilities</b>	<b>10,069.0</b>	<b>10,031.7</b>	<b>10,085.1</b>	<b>10,195.8</b>
<b>Assets</b>				
Gross Block	9,426.1	10,326.1	10,826.1	11,326.1
Less: Acc Depreciation	5,595.1	6,175.9	6,795.4	7,474.3
Net Block	3,831.0	4,150.2	4,030.7	3,851.7
Capital WIP	1,142.7	692.7	442.7	192.7
<b>Total Fixed Assets</b>	<b>4,973.7</b>	<b>4,842.9</b>	<b>4,473.4</b>	<b>4,044.4</b>
Investments	1,655.2	2,005.2	2,105.2	2,355.2
Inventory	1,734.7	1,432.1	1,645.9	1,984.2
Debtors	1,493.8	1,113.9	1,440.1	1,736.2
Loans and Advances	5.2	3.7	4.8	5.8
Other Current Assets	396.1	343.7	369.3	354.6
<b>Cash</b>	<b>575.1</b>	<b>818.4</b>	<b>715.3</b>	<b>628.8</b>
Total Current Assets	4,205.0	3,711.8	4,175.4	4,709.6
Creditors	1,030.9	795.6	925.8	1,116.1
Provisions	98.5	76.0	88.5	106.6
Other Current Liabilities	364.3	262.7	339.6	409.4
Total Current Liabilities	1,493.8	1,134.3	1,353.9	1,632.2
<b>Net Current Assets</b>	<b>2,711.2</b>	<b>2,577.5</b>	<b>2,821.5</b>	<b>3,077.5</b>
Other non-current assets	728.9	606.0	684.9	718.6
<b>Application of Funds</b>	<b>10,069.0</b>	<b>10,031.7</b>	<b>10,085.1</b>	<b>10,195.8</b>

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	7.5	0.3	9.4	17.0
Cash EPS	19.3	12.7	22.7	31.6
BV	112.8	113.1	118.5	129.5
DPS	3.5	0.0	4.0	6.0
Cash Per Share	35.3	45.8	43.6	45.0
<b>Operating Ratios</b>				
EBITDA Margin (%)	13.8	10.5	16.3	18.7
PBT / Net sales (%)	7.0	0.5	8.1	11.2
PAT Margin (%)	4.3	0.2	5.9	0.0
Inventory days	78.6	90.0	80.0	80.0
Debtor days	67.7	70.0	70.0	70.0
Creditor days	46.7	50.0	45.0	45.0
<b>Return Ratios (%)</b>				
RoCE	5.6	0.3	6.0	9.9
RoE	7.8	0.8	8.8	14.0
RoIC	7.8	0.4	7.9	12.8
<b>Valuation Ratios (x)</b>				
P/E	60.7	NM	51.2	29.5
EV / EBITDA	24.8	44.4	22.0	15.7
EV / Net Sales	3.4	4.7	3.6	2.9
Market Cap / Sales	3.1	4.3	3.3	2.8
Price to Book Value	4.7	4.7	4.5	4.1
<b>Solvency Ratios</b>				
Debt/EBITDA	3.9	7.0	3.3	2.2
Debt / Equity	0.8	0.8	0.7	0.6
Current Ratio	2.4	2.6	2.6	2.5
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), and Jaimin Desai, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.