Bharat Forge

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

Beat estimates, Better days ahead

- Bharat Forge's (BFL) reported better than expected numbers in 3Q. Standalone revenue de-grew 4%YoY to Rs10.4bn while EBITDA margin stood at 20.7% (-114bps YoY). Tonnage grew by 8%, while Realization fell by 11%(due to change in product mix).
- Management stated that CV demand is recovering well in both India and overseas. The PV segment is likely to continue to outpace the underlying industry performance led by expansion of the product portfolio.
- The company hopes to offset weak demand trends in the O&G by leveraging its product development capabilities to focus on untapped verticals like EVs component & subsystem, light weighting business (forging & casting) and Defense. The company hopes to win orders and ramp up revenues meaningfully from these segments over the next 2-3 years.
- North American truck order has seen sharp recovery (led by higher freight rates and pick up in replacement demand) and production volumes are expected to accelerate in the coming quarter.
- We remain positive on BFL's growth prospects on the back of improving outlook for class 8 trucks, recovery in demand of construction & mining equipment, focus on diversification (improving long term revenue prospects for PVs, EVs component, Defence and renewable) and the cost optimization initiatives.
- As capacity utilization is ~60%, impacted by the slowdown across verticals and geographies, the company has enough bandwidth to expand margins once utilization ramps up. We maintain an Accumulate rating on the stock, with a TP of Rs 725(30x FY23E EPS).

Positive outlook for across segment (barring O&G)

Outlook appears encouraging for forthcoming quarters led by cyclical recovery in class 8 trucks order book, recovery in demand of construction & mining equipment, and incremental revenue inflow from segments, including defense and metal and mining (cont..)

Q3FY21 Result - Consolidated (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	17,231	18,309	(5.9)	13,761	25.2
Total Expense	14,393	16,086	(10.5)	12,098	19.0
EBITDA	2,838	2,223	27.7	1,663	70.7
Depreciation	1,609	1,303	23.5	1,521	5.8
EBIT	1,228	920	33.5	142	763.8
Other Income	380	372	2.2	335	13.5
Interest	336	431	(22.0)	144	133.2
EBT	(1,722)	585	(394.3)	273	(730.5)
Tax	344	95	263.3	288	19.5
RPAT	(2,091)	418	NA	0.3	NA
APAT	185	628	(70.6)	46	304.2
			(bps)		(bps)
Gross Margin (%)	60.6	54.7	584	58.9	167
EBITDA Margin (%)	16.5	12.1	433	12.1	438
NPM (%)	(12.1)	2.3	(1442)	0.0	(1214)
Tax Rate (%)	(20.0)	16.2	NA	105.5	NA
EBIT Margin (%)	7.1	5.0	210	1.0	610

CMP	Rs 640
Target / Upside	Rs 725 / 13%
NIFTY	15,163

Scrip Details

Equity / FV	Rs 931mn / Rs 2
Market Cap	Rs 298bn
	USD 4bn
52-week High/Low	Rs 677/ 208
Avg. Volume (no)	33,08,970
Bloom Code	BHFC IN

Price Performance	1M	3M	12M
Absolute (%)	3	29	32
Rel to NIFTY (%)	(1)	10	8

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	45.8	45.8	45.8
MF/Banks/FIs	19.1	21.0	20.0
FIIs	22.8	22.6	24.1
Public / Others	12.3	10.7	10.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	164.5	40.9	26.5
EV/EBITDA	40.7	20.5	14.8
ROE (%)	3.5	13.3	18.1
RoACE (%)	3.8	9.9	13.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	63,831	82,768	98,089
EBITDA	7,831	15,548	21,276
PAT	1,812	7,291	11,248
EPS (Rs.)	3.9	15.7	24.2

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Also expects good recovery in renewable energy (Wind energy) and marine engine as import ban from China of gear boxes is positive for domestic manufacturers. The PV segment is likely to continue to outpace the underlying industry performance led by expansion of product portfolio, upward shift in value chain and addition of new customers.

O&G business is ~USD4–5mn a quarter vs peak run rate of USD30mn a quarter, the company is not expecting to go back to the previous high and hence the focus on metals & mining and renewables.

Conference call highlights:

- Expect demand to remain strong across all geographies & sectors, export market also witnessing a recovery across the sectors. Demand and usage of trucks in NA/Europe recovering better than expected.
- BHFC is taking a new initiative such as 1) e-mobility (EV component, power electronics, control electronics, BMS), 2) aluminum light weighting casting & Forging and 3) solution for light weighting to industry expect these segments to add meaningful contribution in topline over next 2-3 years.
- Quarterly performance impacted negatively due to negligible revenue from OIL& GAS and withdrawal of MIES schemes.
- PLI and Atmanirbhar scheme is providing some tailwind to the company, expect scrappage policy to create some positive demand on the industry

Automotive Business

Domestic:

- Led by pickup in economic activities, pent up demand and low interest rates Domestic automotive industry is doing well and there is initial sign of recovery in heavy truck industry also.
- Aluminum casting facility is expected to start form June, initial few line of capacity is already booked with customers. With an initial order book of Rs.250mn expected to achieve Rs.700-800mn going forward. Expect margin to improved further led by commencement of aluminum facilities.

International

- Shortage of fleet, increase in freight volume and rates creating a demand for heavy trucks. As economy continues to recover fleet operators are optimistic for 2021. Heavy truck order volume was strongest in Q4 CY20.
- Commercial production of Europe aluminum facility to start production from June and expect to ramp up the production in next 2-3 years.

Industrial

Domestic

- Industrial segment grew during the quarter led by pickup up in economic activity. Mechanism of agriculture equipment showing promising growth in capital goods segment.

International

- Industrial business severely impacted by the tepid market demand from the Oil & Gas sector and lower end user demand for construction and mining equipment.
- Overseas subsidiaries margin expanded due to Restructuring effort.

Oil & Gas

- Oil & Gas quarterly revenue run rate come down to USD 4-5mn quarter from USD 25-30mn, to mitigate the de-growth in Oil& Gas segment company exploring opportunity in metal, mining and renewable.

Defense

- In defense company shortlisted in various program and expected to get new order in near term.

Others

- In domestic non-Auto, tractor contribution is around 20%.
- Exceptional item of Rs. 2.9bn. (towards VRS, manpower optimization in overseas subsidiaries and settlement of penalty on subsidiaries imposed by German competition regulator.) which needs to paid over 5 years.
- Consol debt stood at Rs.23.1bn and working capital debt Rs. 14.45bn. Cash balance stood at Rs. 26.37bn. Hedge currency rate for the quarter is USD 72.50. New domestic capex would be around Rs.500mn including maintenance capex in FY21.

Exhibit 1: Actual vs Dart (Standalone)

Particulars (Rs mn)	Actual	Dart Estimates	VAR (%)	Comments
Revenue	10,357	9,540	9%	Better than expected recovery in intl. business
EBIDTA	2,148	1,717	25%	Due to negative operating leverage
EBIDTA Margin (%)	20.74	18.00	274bps	
APAT	968	860	13%	

Source: Company, DART

Exhibit 2: Changes in estimates

Rs. Mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	82,768	80,495	2.8	98,089	96,603	1.5
EBITDA	15,548	15,537	0.1	21,276	20,061	6.1
EBITDA Margin (%)	18.8	19.3	(51.6)bps	21.7	20.8	92.4 bps
APAT	7,291	7,283	0.1	11,248	10,339	8.8
EPS (Rs)	15.7	15.6	0.1	24.2	22.2	8.8

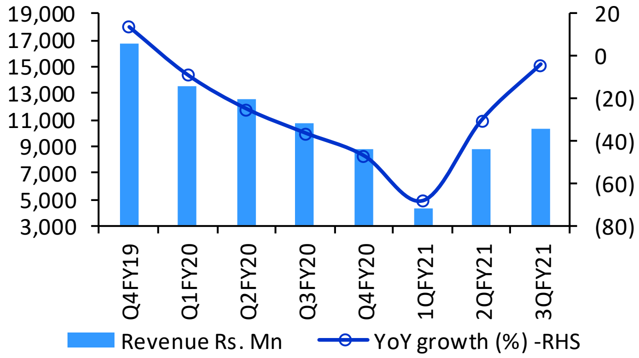
Source: Company, DART

Exhibit 3: Standalone revenue assumption

Segment Rs.mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Commercial Vehicle	23,423	26,860	17,884	13,812	20,832	28,381
YoY growth (%)	31	15	(33)	(23)	51	36
Passenger Vehicle	5,138	7,248	7,310	6,240	8,858	9,901
YoY growth (%)	29	41	1	(15)	42	12
Non-Auto Segment	21,505	26,589	16,811	13,610	17,393	20,791
YoY growth (%)	46	24	(37)	(19)	28	20
Other revenues	3,660	4,497	3,634	2,894	3,329	3,645
YoY growth (%)	(12)	23	(19)	(20)	15	9
Subtotal Standalone	53,725	65,194	45,638	36,556	50,412	62,718
YoY growth (%)	32	21	(30.0)	(19.9)	37.9	24.4

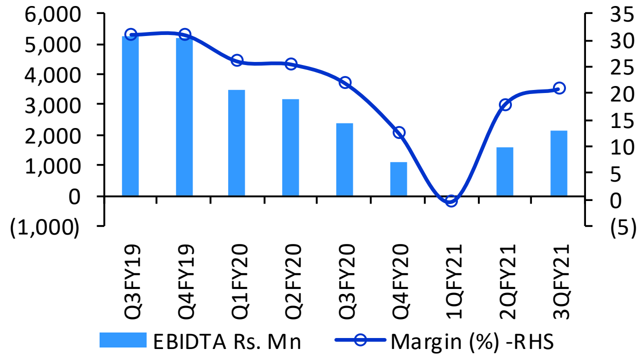
Source: DART, Company

Exhibit 4: (Stnd.) Revenue declined 4% YoY



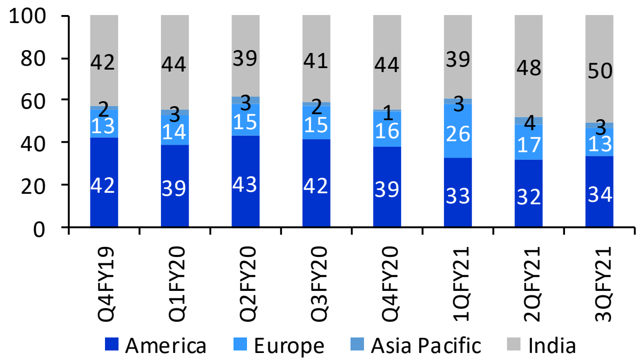
Source: Company, DART

Exhibit 5: (Stnd.) Margin expanded QoQ



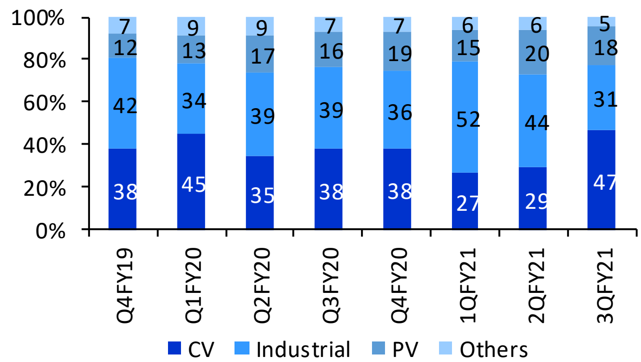
Source: Company, DART

Exhibit 6: Geography mix (%)



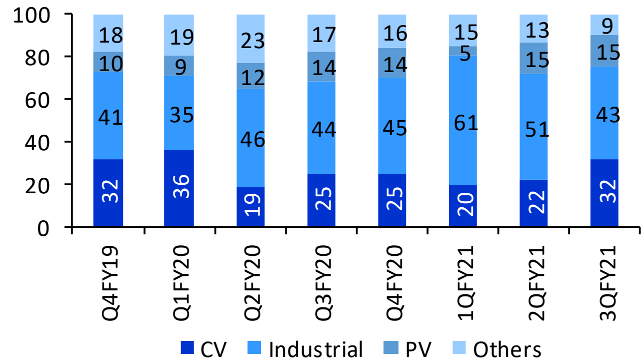
Source: Company, DART

Exhibit 7: Segment mix (%) CV showing sign of recovery



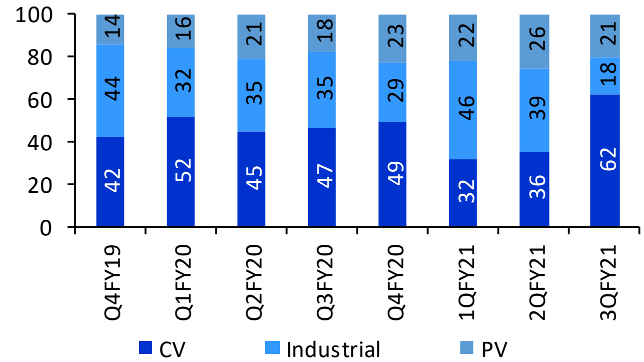
Source: Company, DART

Exhibit 8: India: CV revenue improving (%)



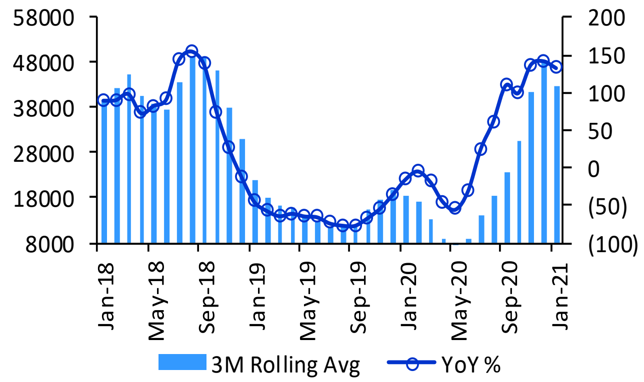
Source: Company, DART

Exhibit 9: International business performance (%)



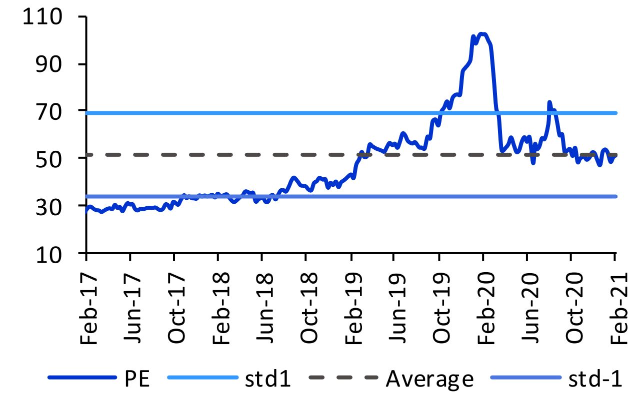
Source: Company, DART

Exhibit 10: Class 8 truck net order growth continue



Source: Company, DART

Exhibit 11: 1 yr fw/PE band



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**80,558**	**63,831**	**82,768**	**98,089**
Total Expense	**69,411**	**56,000**	**67,219**	**76,813**
COGS	35,765	28,262	34,628	39,825
Employees Cost	11,955	10,571	11,788	12,916
Other expenses	21,691	17,167	20,803	24,072
EBIDTA	**11,147**	**7,831**	**15,548**	**21,276**
Depreciation	5,477	5,759	6,275	6,877
EBIT	**5,670**	**2,072**	**9,273**	**14,399**
Interest	1,713	1,488	1,463	1,470
Other Income	1,879	1,973	2,071	2,175
Exc. / E.O. items	(789)	0	0	0
EBT	**5,046**	**2,557**	**9,881**	**15,104**
Tax	1,125	644	2,490	3,806
RPAT	3,498	1,812	7,291	11,248
Minority Interest	(6)	1	0	0
Profit/Loss share of associates	**(429)**	**(100)**	**(100)**	**(50)**
APAT	**4,287**	**1,812**	**7,291**	**11,248**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	931	931	931	931
Minority Interest	320	320	320	320
Reserves & Surplus	51,266	51,449	56,644	65,564
Net Worth	**52,197**	**52,380**	**57,575**	**66,495**
Total Debt	38,784	35,284	31,784	28,284
Net Deferred Tax Liability	506	506	506	506
Total Capital Employed	**91,807**	**88,489**	**90,184**	**95,604**
Applications of Funds				
Net Block	**38,659**	**37,458**	**37,254**	**37,449**
CWIP	11,427	11,427	11,427	11,427
Investments	7,410	7,410	7,410	7,410
Current Assets, Loans & Advances	**57,619**	**51,672**	**57,125**	**65,344**
Inventories	17,347	12,776	15,179	17,458
Receivables	14,939	13,990	18,141	21,499
Cash and Bank Balances	16,412	14,256	11,086	11,193
Loans and Advances	557	613	674	742
Other Current Assets	8,364	10,036	12,044	14,453
Less: Current Liabilities & Provisions	**23,307**	**19,478**	**23,030**	**26,026**
Payables	10,309	8,672	10,626	12,220
Other Current Liabilities	12,997	10,805	12,405	13,805
sub total				
Net Current Assets	34,312	32,195	34,095	39,319
Total Assets	**91,807**	**88,489**	**90,185**	**95,604**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	55.6	55.7	58.2	59.4
EBIDTA Margin	13.8	12.3	18.8	21.7
EBIT Margin	7.0	3.2	11.2	14.7
Tax rate	22.3	25.2	25.2	25.2
Net Profit Margin	4.3	2.8	8.8	11.5
(B) As Percentage of Net Sales (%)				
COGS	44.4	44.3	41.8	40.6
Employee	14.8	16.6	14.2	13.2
Other	26.9	26.9	25.1	24.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.7	0.6	0.4
Interest Coverage	3.3	1.4	6.3	9.8
Inventory days	79	73	67	65
Debtors days	68	80	80	80
Average Cost of Debt	4.5	4.0	4.4	4.9
Payable days	47	50	47	45
Working Capital days	155	184	150	146
FA T/O	2.1	1.7	2.2	2.6
(D) Measures of Investment				
AEPS (Rs)	9.2	3.9	15.7	24.2
CEPS (Rs)	21.0	16.3	29.1	38.9
DPS (Rs)	2.0	3.5	4.5	5.0
Dividend Payout (%)	21.7	89.9	28.7	20.7
BVPS (Rs)	112.1	112.5	123.6	142.8
RoANW (%)	6.6	3.5	13.3	18.1
RoACE (%)	6.9	3.8	9.9	13.7
RoAIC (%)	7.2	2.8	12.1	17.6
(E) Valuation Ratios				
CMP (Rs)	640	640	640	640
P/E	69.5	164.5	40.9	26.5
Mcap (Rs Mn)	2,98,053	2,98,053	2,98,053	2,98,053
MCap/ Sales	3.7	4.7	3.6	3.0
EV	3,20,425	3,19,080	3,18,750	3,15,143
EV/Sales	4.0	5.0	3.9	3.2
EV/EBITDA	28.7	40.7	20.5	14.8
P/BV	5.7	5.7	5.2	4.5
Dividend Yield (%)	0.3	0.5	0.7	0.8
(F) Growth Rate (%)				
Revenue	(20.6)	(20.8)	29.7	18.5
EBITDA	(45.8)	(29.7)	98.5	36.8
EBIT	(63.1)	(63.4)	347.5	55.3
PBT	(68.7)	(49.3)	286.4	52.9
APAT	(58.5)	(57.7)	302.3	54.3
EPS	(58.5)	(57.7)	302.3	54.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	15,219	7,049	7,889	12,303
CFI	(11,322)	(2,097)	(5,000)	(5,897)
CFF	(3,814)	(7,193)	(7,059)	(7,298)
FCFF	5,648	3,979	1,818	5,231
Opening Cash	10,965	16,412	14,256	11,086
Closing Cash	16,412	14,256	11,086	11,193

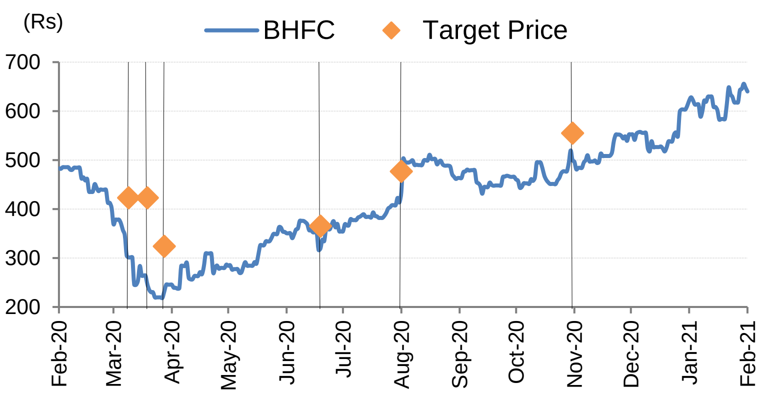
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-20	Buy	423	301
Mar-20	Buy	423	246
Apr-20	Buy	324	232
Jun-20	Accumulate	365	319
Aug-20	Accumulate	477	435
Nov-20	Accumulate	555	500

*Price as on recommendation date

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