

Demand picture improving, most positives priced in...

Bharat Forge (BFL) reported a steady Q3FY21 performance. Standalone revenues came in at ₹ 1,036 crore (down 3.8% YoY) despite 8.4% YoY tonnage growth to 50,943 MT. Total India revenues were at ₹ 516 crore (up 26.5% YoY; CV up 49.4%, PV up 27.5%, industrial up 16%). Export revenues, on the other hand, were down 19.5% YoY to ₹ 512 crore (CV up 7.1%, PV down 8.4%, industrials down 60.1%). Standalone EBITDA for the quarter was at ₹ 215 crore, with consequent margins at 20.7%. Margin performance was positively impacted by operating leverage, with gross margin contraction at 70 bps. Standalone PAT was at ₹ 92.6 crore, down 27.6% YoY. At the consolidated level, BFL reported share of loss from subsidiaries/associates at ₹ 3.6 crore vs. loss of ₹ 8.6 crore in Q3FY20.

Concurrent (domestic, global) CV recovery bodes well

Domestic CV industry appears to have surpassed the cyclical bottom (~22 months of decline since FY20 vs. ~two-year average down cycle in the past). Pick-up in mining, construction and road building activity has led to improvement in truck offtake in recent months, with capex thrust of the recent Budget, public bus procurement and proposed scrapping policy introduction set to act as further tailwinds to varying degrees. BFL derived 27% of FY20 India standalone revenues from CVs and is set to benefit from the impending revival. Separately, on the US Class 8 trucks front, net order readings have picked up substantial pace with January 2021 print at ~42,800 units i.e. fourth consecutive month of >40,000 reading. This bodes well for BFL and will provide further fillip to growth given global CV constituted ~48% of export revenue from standalone operations, as of FY20.

Oil & gas de-risking plans underway

On the international side, the oil & gas segment has continued to drag overall performance, with revenues down >80% from peak levels amid a slide in crude oil prices and consequent production/drilling drop off. However, present run rate is set to improve if prices stabilise around current levels. Nevertheless, BFL has strengthened focus on other segments viz. mining, renewable energy, EV, etc, to de-risk away from concentrated exposure to oil & gas. In particular, BFL sees EVs, light weighting, aluminium forging & casting and defence as verticals that can assume significant share of overall business over the next five years. Going forward, any pickup on defence tendering side under the government's localisation push (BFL has demonstrated its capabilities) would be a further support.

Valuation & Outlook

For BFL, we expect 25.5%, 58.9% CAGR in consolidated sales, EBITDA respectively, in FY21E-23E. We see margins at 19.4% by FY23E on mix improvement, cost actions and operating leverage benefits. Continued improvement in profitability of European subsidiaries is a key monitorable. The stock price, however, captures much positives in our view, limiting the upside potential. We therefore retain our **HOLD** rating on the stock valuing BFL at ₹ 670 i.e. 35x P/E on FY23E EPS of ₹ 19.1 (earlier TP: ₹ 510).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	10,145.7	8,055.8	6,014.5	7,877.9	9,473.6	25.5%
EBITDA	2,055.6	1,114.8	726.6	1,356.6	1,834.1	58.9%
EBITDA Margins (%)	20.3	13.8	12.1	17.2	19.4	
Net Profit	1,032.6	349.2	(244.0)	547.6	888.2	LP
EPS (₹)	22.2	7.5	(5.2)	11.8	19.1	
P/E	28.9	85.3	NM	54.4	33.5	
RoNW (%)	19.1	7.8	3.7	10.2	14.9	
RoCE (%)	15.5	5.6	1.2	7.1	11.1	

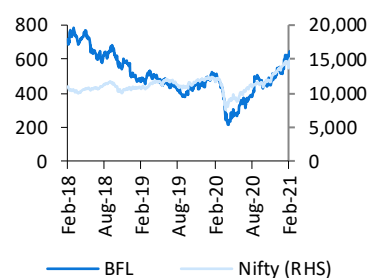
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 29796 crore
Total Debt (FY20)	₹ 4348 crore
Cash and Inv. (FY20)	₹ 1641 crore
EV	₹ 32504 crore
52 week H/L (₹)	676 / 208
Equity capital	₹ 93.1 Crore
Face value	₹ 2

Price Performance



Key Highlights

- Q3FY21 standalone revenues down 3.8% despite 8% tonnage growth. Margins up 297 bps QoQ to 20.7%
- Concurrent (domestic, global) CV revival bodes well. Oil & Gas exposure to be de-risked via growth in new verticals including defence

Risks to our call

- Higher than anticipated new order wins, accelerating the sales growth momentum over FY21E-23E
- Lower than anticipated benefits of operating leverage thereby limiting the scale of margin improvement

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	1,036	1,070	1,077	-3.8	882	17.5	Topline came broadly in line with our estimates
Raw Material Expenses	383	420	420	-8.8	320	19.6	RM to sales came in lower at 37% tracking change in product mix which is also reflective in lower realisations
Employee Expenses	110	115	118	-6.5	111	-0.5	
Other Expenses	328	323	303	8.1	294	11.6	Employee costs as a % of sales stood at 31.6%
EBITDA	215	212	236	-8.9	157	37.1	
EBITDA Margin (%)	20.7	19.8	21.9	-115 bps	17.8	297 bps	EBITDA margins for the quarter at 20.7% came in ahead of estimates tracking lower RM costs
Depreciation	96.4	88.4	82.3	17.1	88.3	9.1	
Interest	26.8	30.4	35.6	-24.6	7.5	256.9	Interest expense came in a tad lower
Other Income	35	38	40	-11.6	31	12.5	Other income came in on expected lines
PBT	121.3	131.3	157.6	-23.0	89.2	36.0	
Tax	28.7	33.1	29.7	-3.4	18.9	51.8	
Reported PAT	92.6	98.2	127.9	-27.6	70.3	31.8	PAT came in marginally lower tracking higher than anticipated depreciation charge
Key Metrics							
Domestic revenues	516	489	408	26.5	404	27.8	Domestic revenues grew 27% YoY to ₹ 516 crore and stood ahead our estimates
Export revenues	512	559	635	-19.5	462	10.7	Export revenues de-grew 20% YoY to ₹ 512 crore and stood below our estimates

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	5,808	6,015	3.6	7,509	7,878	4.9	9,053	9,474	4.6	Marginally upgraded our sales estimates tracking robust demand revival underway both domestically as well as globally. We expect sales to grow at a CAGR of 25.5% over FY21-23E
EBITDA	610	727	19.1	1,224	1,357	10.8	1,693	1,834	8.3	
EBITDA Margin (%)	10.5	12.1	158 bps	16.3	17.2	92 bps	18.7	19.4	66 bps	Revised upward our margin estimates tracking cost cutting initiatives undertaken by the company and operating leverage benefits that are likely to flow as sales picks up pace
PAT	37	-244	-756.0	490	548	11.8	851	888	4.4	
EPS (₹)	0.8	-5.2	-756.0	10.5	11.8	11.8	18.3	19.1	4.4	Upward revision in sales and margin estimates leads to upward revision in earning estimates for FY22-23E. PAT in FY21E is impacted by the exceptional charge amounting to ~₹300 crore

Source: ICICI Direct Research

Exhibit 3: Assumptions

₹ crore	Current			Earlier			Comments			
	FY18	FY19	FY20P	FY21E	FY22E	FY23E		FY21E	FY22E	FY23E
Domestic Revenues	2,227	2,627	1,782	1,555	2,171	2,605	1,430	1,826	2,192	With CV cycle on cusp of cyclical recovery both domestically as well as globally (including US class 8 trucks), topline growth is expected to be robust at Bharat forge going forward. On standalone basis, we expect domestic revenues to grow at a CAGR of ~29% over FY21-23E while export revenues are seen growing at a CAGR of 28% in the aforesaid period. Stable Brent crude price at ~US\$50-50/barrel are also seen supportive of Oil & Gas segment revenues in times to come
Export revenues	2,971	3,726	2,650	1,783	2,427	2,932	1,844	2,498	3,038	
Americas (\$ mn)	296	369	265	151	211	253	161	221	265	
Europe (Euro mn)	102	125	87	70	84	100	74	93	112	
Asia Pac (\$ mn)	21	18	14	10	14	17	10	15	17	
USD/INR	68.0	70.4	70.6	73.7	74.5	75.0	72.8	74.0	75.0	
EUR/US\$	1.2	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	

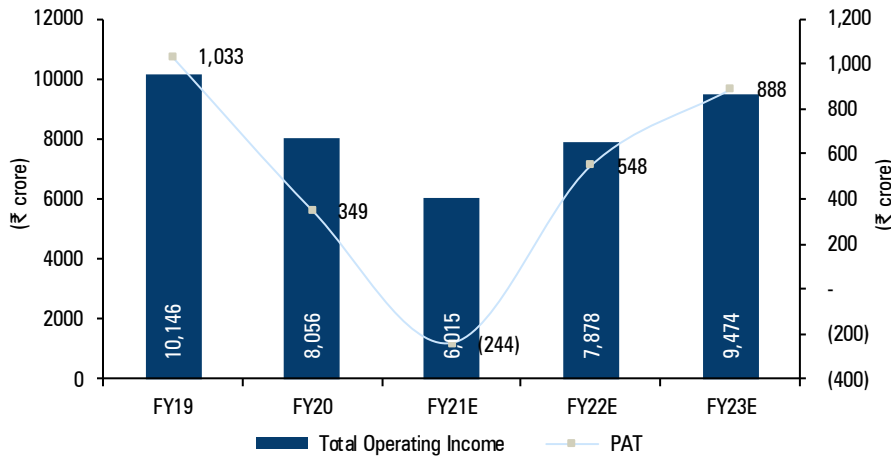
Source: Company, ICICI Direct Research

Q3FY21 earnings conference call highlights

- CV traction looks strong in Europe and the US. In India, however, demand is more volatile. Within industrials, construction and mining pockets appear to have better prospects domestically and in the US
- EV components and subsystems (BMS, power electronics, etc), aluminium forging and casting, other light weighting solutions and defence are set to be major businesses in the next few years for BFL. Aluminium forging, casting revenues are seen rising from ~US\$50 million currently to ~US\$200/250 million by 2025. Present product lines are seen evolving as per cyclicalities in their respective segments
- Oil & gas revenues have climbed down to ~US\$4-5 million in a quarter vs. peak of ~US\$30 million. Stability of oil prices between \$50 and \$60 per barrel would help improve the run rate. BFL is replacing this business with other sectors such as metals & mining and renewables
- The company is working on global EV projects for existing clients at component level viz. BMS, DC-DC convertors, etc
- New castings plant in India is set to reach revenues of ~₹ 70-80 crore per annum from next year
- Restructuring activities, efficiency improvement, focus on fixed costs have helped European margin performance. The company expects it to be sustained, going forward. Commercialisation of Europe aluminium forging business would also aid margins
- ASPs and gross margins were lower during the quarter due to product mix challenges. The same is set to normalise, going forward

Financial story in charts

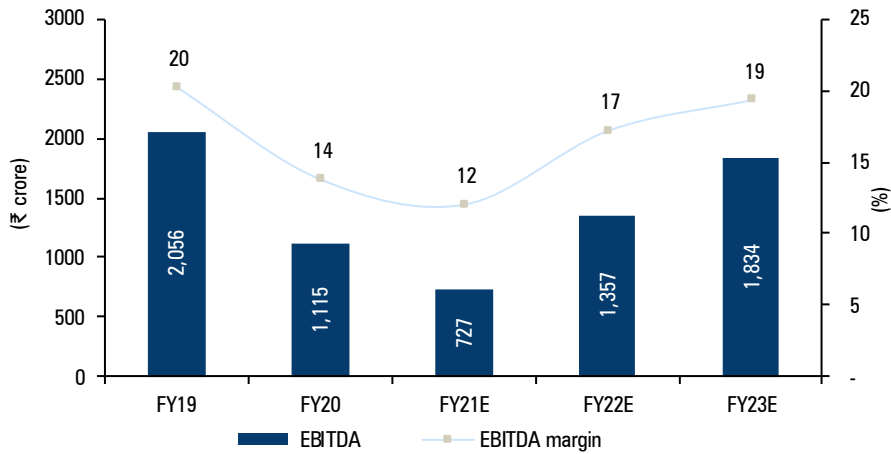
Exhibit 4: Topline trend



We expect consolidated sales to grow at 25.5% CAGR over FY21E-23E to ₹ 9,474 crore. PAT is expected to improve meaningfully in this timeframe as operating leverage benefits flow to the bottom-line

Source: Company, ICICI Direct Research

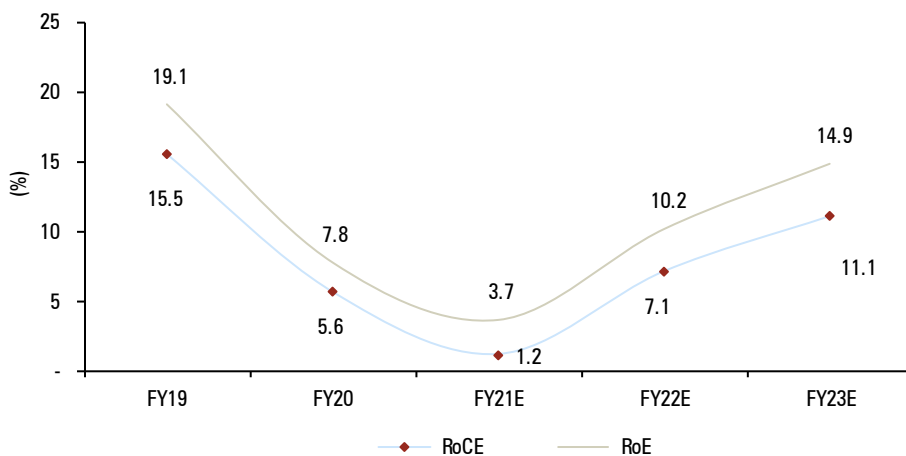
Exhibit 5: EBITDA and EBITDA margin trend



Margins seen growing near to its erstwhile trajectory to ~19% levels by FY23E, aided by structural cost related initiatives

Source: Company, ICICI Direct Research

Exhibit 6: Trend in return ratios



RoE is seen dipping substantially during FY21E amid steep drop in sales and margins before recovering back towards ~15% mark by FY23E backed by rise in margins and sales

Source: Company, ICICI Direct Research

Exhibit 7: Key valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	8,358	30.7	16.2	8.1	39.5	18.8	17.3	14.9
FY19	10,146	21.4	22.2	37.0	28.9	16.0	19.1	15.5
FY20	8,056	-20.6	7.5	-66.2	85.3	29.2	7.8	5.6
FY21E	6,015	-25.3	-5.2	NM	NA	44.3	3.7	1.2
FY22E	7,878	31.0	11.8	NM	54.4	23.6	10.2	7.1
FY23E	9,474	20.3	19.1	62.2	33.5	17.2	14.9	11.1

Source: Company, ICICI Direct Research

Exhibit 8: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	45.8	45.8	45.8	45.8	45.8
FII	20.5	20.7	22.1	21.9	23.5
DII	15.2	15.7	15.1	11.5	12.3
Others	18.5	17.8	17.0	20.8	18.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	8055.8	6014.5	7877.9	9473.6
Growth (%)	-20.6	-25.3	31.0	20.3
Raw Material Expenses	3,576.4	2,526.1	3,308.7	3,978.9
Employee Expenses	1,195.5	1,052.5	1,142.3	1,231.6
Other expenses	2,169.1	1,709.3	2,070.3	2,429.0
Total Operating Expenditure	6,941.1	5,288.0	6,521.3	7,639.5
EBITDA	1,114.8	726.6	1,356.6	1,834.1
Growth (%)	-45.8	-34.8	86.7	35.2
Depreciation	547.7	613.5	649.9	710.5
Interest	171.3	129.0	143.4	129.4
Other Income	187.9	153.4	153.9	170.9
PBT	583.6	137.5	717.1	1,165.0
Others	-43	-7	11	0
Total Tax	112.5	68.6	180.7	293.6
PAT	349.2	-244.0	547.6	888.2
Growth (%)	-66.2	-169.9	NM	62.2
EPS (₹)	7.5	-5.2	11.8	19.1

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	349.2	-244.0	547.6	888.2
Add: Depreciation & Interest	719.0	742.4	793.4	840.0
(Inc)/dec in Current Assets	893.3	798.4	-798.5	-640.5
Inc/(dec) in CL and Provisions	-270.7	-409.4	336.0	287.7
CF from operating activities	1690.8	887.4	878.4	1375.3
(Inc)/dec in Investments	-525.8	-250.0	100.0	-150.0
(Inc)/dec in Fixed Assets	-1101.3	-450.0	-250.0	-250.0
Others	385.1	4.2	-189.9	-133.7
CF from investing activities	-1242.0	-695.8	-339.9	-533.7
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	-129.0	-143.4	-129.4
CF from financing activities	-349.2	-179.0	-529.7	-808.8
Net Cash flow	99.7	12.6	8.9	32.8
Opening Cash	475.4	575.1	587.7	596.6
Closing Cash	575.1	587.7	596.6	629.4

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	93.1	93.1	93.1	93.1
Reserve and Surplus	5,158.6	4,914.5	5,275.8	5,884.7
Total Shareholders funds	5,251.7	5,007.7	5,369.0	5,977.8
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
Total Liabilities	10,069.0	9,775.0	9,936.3	10,145.1
Assets				
Gross Block	9,426.1	10,326.1	10,826.1	11,326.1
Less: Acc Depreciation	5,595.1	6,208.6	6,858.5	7,569.0
Net Block	3,831.0	4,117.5	3,967.6	3,757.1
Capital WIP	1,142.7	692.7	442.7	192.7
Total Fixed Assets	4,973.7	4,810.2	4,410.3	3,949.8
Investments	1,655.2	2,005.2	2,005.2	2,255.2
Inventory	1,734.7	1,318.3	1,726.7	2,076.4
Debtors	1,493.8	1,153.5	1,510.8	1,816.9
Loans and Advances	5.2	3.9	5.1	6.1
Other Current Assets	396.1	355.9	387.4	371.1
Cash	575.1	587.7	596.6	629.4
Total Current Assets	4,205.0	3,419.2	4,226.5	4,899.9
Creditors	1,030.9	741.5	971.3	1,168.0
Provisions	98.5	70.9	92.8	111.6
Other Current Liabilities	364.3	272.0	356.3	428.4
Total Current Liabilities	1,493.8	1,084.4	1,420.3	1,708.0
Net Current Assets	2,711.2	2,334.8	2,806.2	3,191.8
Other non-current assets	728.9	624.7	714.6	748.3
Application of Funds	10,069.0	9,775.0	9,936.3	10,145.1

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	7.5	-5.2	11.8	19.1
Cash EPS	19.3	7.9	25.7	34.3
BV	112.8	107.6	115.3	128.4
DPS	3.5	0.0	4.0	6.0
Cash Per Share	35.3	40.9	38.9	42.9
Operating Ratios				
EBITDA Margin (%)	13.8	12.1	17.2	19.4
PBT / Net sales (%)	7.0	1.9	9.0	11.9
PAT Margin (%)	4.3	-4.1	7.0	0.0
Inventory days	78.6	80.0	80.0	80.0
Debtor days	67.7	70.0	70.0	70.0
Creditor days	46.7	45.0	45.0	45.0
Return Ratios (%)				
RoCE	5.6	1.2	7.1	11.1
RoE	7.8	3.7	10.2	14.9
RoIC	7.8	1.6	9.2	14.1
Valuation Ratios (x)				
P/E	72.6	NM	54.4	33.5
EV / EBITDA	29.2	44.3	23.6	17.2
EV / Net Sales	4.0	5.4	4.1	3.3
Market Cap / Sales	3.7	5.0	3.8	3.1
Price to Book Value	5.7	6.0	5.5	5.0
Solvency Ratios				
Debt/EBITDA	3.9	5.9	3.0	2.0
Debt / Equity	0.8	0.9	0.8	0.6
Current Ratio	2.4	2.6	2.6	2.5
Quick Ratio	1.3	1.4	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	240	300	Buy	15,241	3.5	13.7	20.6	68.8	17.6	11.7	7.8	6.7	5.0	7.1	8.0	11.3	5.4	7.4	10.2
Ashok Leyland (ASHLEY)	130	150	Buy	38,052	-1.7	1.4	4.6	-75.6	93.4	28.6	129.1	26.7	14.4	-3.6	6.1	16.4	-6.9	5.9	17.5
Bajaj Auto (BAAUTO)	4,150	4,500	Buy	1,20,089	154.1	184.5	219.6	26.9	22.5	18.9	21.1	16.8	13.5	25.3	26.6	27.5	19.7	20.6	21.3
Balkrishna Ind. (BALIND)	1,650	2,100	Buy	31,897	55.6	65.6	77.6	29.7	25.1	21.3	18.6	15.5	13.1	19.4	21.3	22.7	18.6	19.1	19.5
Bharat Forge (BHAFOR)	640	670	Hold	29,796	-5.2	11.8	19.1	NM	54.4	33.5	44.3	23.6	17.2	1.2	7.1	11.1	3.7	10.2	14.9
Eicher Motors (EICMOT)	2,750	3,050	Hold	74,965	48.7	73.3	94.2	56.5	37.5	29.2	37.8	26.2	20.7	11.7	15.3	16.7	12.0	15.8	17.5
Escorts (ESCORT)	1,440	1,500	Hold	17,652	62.8	65.7	77.8	22.9	21.9	18.5	15.1	14.6	12.0	16.8	14.6	14.9	14.7	13.5	13.9
Exide Industries (EXIIND)	215	225	Buy	18,275	8.0	9.9	10.9	21.0	17.1	15.5	13.8	11.2	9.9	12.9	14.7	15.0	10.2	11.6	11.8
Hero Moto (HERHON)	3,540	4,000	Buy	70,694	139.1	169.9	200.3	25.4	20.8	17.7	17.0	13.8	11.3	18.8	21.2	22.9	17.9	19.7	20.9
M&M (MAHMAH)	910	1,000	Buy	1,13,131	10.8	36.0	44.8	84.1	25.3	20.3	17.5	15.8	12.9	9.6	9.6	11.4	7.7	11.1	12.5
Maruti Suzuki (MARUTI)	7,600	7,000	Reduce	2,29,581	144.5	198.8	233.4	52.6	38.2	32.6	37.1	23.8	19.8	3.9	7.8	9.1	8.5	10.9	11.8
Minda Industries (MININD)	580	625	Buy	15,771	5.8	11.6	17.9	99.6	49.8	32.5	24.3	16.9	13.2	8.7	14.2	19.1	8.7	15.9	19.5
Motherson (MOTSUM)	197	165	Hold	62,211	0.3	5.1	6.3	NM	38.8	31.2	18.3	10.0	8.5	2.8	13.1	16.0	0.9	13.2	14.9
Tata Motors (TATMOT)	330	301	Buy	1,18,724	-14.7	9.0	21.7	NM	36.8	15.2	6.6	4.7	3.7	3.7	7.9	11.1	-9.3	5.3	11.5

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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