

Retail Equity Research
Bharat Forge Ltd
Automobile – Auto Ancillaries

Buy

BSE CODE : 500493 NSE CODE: BHARATFORG
BLOOMBERG CODE: BHFC:IN SENSEX : 58,466

12 Months Investment Period Rating as per Mid cap
CMP Rs. 741 TARGET Rs. 861 RETURN 16% ↑
(Closing: 22-11-21)

KEY CHANGES: **TARGET** ↑ **RATING** ↔ **EARNINGS** ↑

Long term growth remain intact.

Bharat Forge Ltd (BFL) is a leading player in the forgings industry. The company is serving several sectors including automobile, power, oil and gas, rail & marine, aerospace & defence, construction, mining, etc.

- Q2FY22 revenue came at Rs.2,386cr. (+13.2% QoQ). This was largely on account of strong domestic growth of 40% QoQ. Export growth came lower at 4.9% due to chip shortage.
- Despite the input and logistics cost pressure, EBITDA margin came at healthy 21.4% similar to previous quarter.
- The demand in domestic market for both industrial & Automotive and export industrial segment continue to remain robust. However export automotive will witness subdued demand for near term.
- BFL's 2W- EV associate Tork Motors has received FAME-II approvals. The company has also won orders for developing components for E-CVs in the light truck segment. These should start from FY23 onwards.
- Amid crisis, the demand visibility looks robust on a medium basis for BFL, owing to growth coming from the domestic auto and Industrial sector. We value BFL at 16x EV/EBITDA on FY23E.

Strong recovery in the domestic market.

Despite the semi conductor & container shortage, EBITDA margin came healthy at 21.4% similar to previous quarter., owing to superior product mix and cost control initiatives. Q2FY22 revenue came at Rs.2386cr. (+13.2% QoQ). This was largely on account of strong domestic growth of 40% QoQ. Domestic CV/PV/Industrial segment grew by 31%/35%/63%. However, International truck & car demand has been temporarily disrupted due to former issues. The impact was visible in Q3CY21 at 62,718 units as against 69,488 in Q2CY21, a drop of 10%. PV segment has been significantly impacted by the chip shortage and logistics issue. The industrial sector recovered meaningfully primarily driven by Oil and Gas space. However, we expect the outlook for both CV and PV to remain robust once the above issue are get solved. Especially the PV segment, where the company continuous to increase it market share both in the IC powertrain and BEV.

Defence & Electric Vehicle Initiatives

Government's initiative to enhance local manufacturing through the announcement of PLI scheme and mission of Atma Nirbharata, BFL has announced a capex of Rs2.4bn in the next few years for new defense and e-mobility initiatives. The 2W- EV associate Tork Motors has received FAME –II approvals. The company has won orders for developing components for electric CV in the light truck segment and system electronics for Industrial. The ramp up should start in FY23. Acquisition of Sanghavi Forgings is completed at cost of Rs77cr and company has turned profit in PBT. On defense, Recently BFL has bagged Rs178cr order from Defence ministry to manufacture Kalyani M4 vehicles and expect further order going forward. On the Aerospace the company has already set the target to reach 1000cr by FY2023 from current Rs400cr.

Incremental revenue from new business

Market shift towards light weighting components for Electric vehicles, represents a considerable growth opportunity for BFL in coming years both in terms of top-line and margin and E-Mobility components and system business. We expect the incremental revenue from new business/products to grow at double digit in the next 2 years. Sustained and meaning macroeconomics revival, pick up in infra projects, and roadmap for EV. We expect meaning full recovery in overseas subsidiary in FY22 and factor a consolidated revenue growth 37%YoY .

Valuations

BFL's strategy to shift to new technological products and ramp-up in Aluminium forging in US & India for new product development are on track and will bring value migration per vehicle in the long run. We believe, domestic demand visibility looks attractive and expect margin expansion owing to the growth coming from the defence sector and sustained recovery in the auto space. However, the rise in Europe's covid cases and thereafter lockdown is looming as a cause of worry for near term. We value BFL on 16x EV/EBITDA on FY23E with a target price of Rs.861 and recommend Buy rating at CMP.

Company Data

Market Cap (cr)	Rs.34,500
Enterprise Value (cr)	Rs.36,571
Outstanding Shares (cr)	46.6
Free Float	55.2%
Dividend Yield	0.3%
52 week high	Rs.848
52 week low	Rs.491
6m average volume (cr)	0.3
Beta	1.3
Face value	2

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	45.8	45.8	44.8
FII's	24.9	24.9	25.1
MFs/Insti	12.2	12.2	13.3
Public	17.1	17.1	16.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	0.4%	11.4%	49.6%
Absolute Sensex	5.3%	15.5%	34.3%
Relative Return	-5.0%	-4.2%	15.2%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	6,336	9,241	11,779
Growth (%)	-21.3	45.8	27.5
EBITDA	862	1,978	2,591
EBITDA Margin(%)	13.6	21.4	22.0
PAT Adj.	179	1,095	1,538
Growth (%)	-58.1	510.7	40.5
Adj. EPS	3.9	23.5	33.0
Growth (%)	-58.1	510.7	40.5
P/E	192.5	31.5	22.4
P/B	6.3	5.8	5.0
EV/EBITDA	44.9	19.7	14.5
ROE (%)	3.4	19.2	23.8
D/E	0.8	0.8	0.6

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %
Sales	2,386	1,376	73.4	2,108	13.2
EBITDA	510	166	206.6	450	13.2
EBITDA margins	21.4	12.1	930bps	21.4	-
Depreciation	174	152	14.2	167	4.1
EBIT	336	14	-	284	18.6
Interest	23.2	14.4	61.2	50.1	-53.6
Other Income	38	33	14.3	41	-6.0
Exceptional Items	0	-60	0	-62	-100.0
PBT	351	0	-	233	50.5
Tax	70	29	-	51	38.4
Share of profit from Associate	-11	0	0	-9	17.8
Minority Interest	0	0	0	0	-
Reported PAT	270	-1	-	153	-
Adjustments	0	60	0	62	-
Adj PAT	270	5	-	214	26.1
No. of Shares	46.6	46.6	-	46.6	-
EPS (Rs)	5.8	0.1	-	4.6	26.1

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	8,704	10,905	9,241	11,779	6.2	8.0
EBITDA	1854	2486	1978	2591	6.7	4.2
Margins (%)	21.3	21.5	21.4	22.0	10bps	50bps
Adj. PAT	921	1422	1095	1538	18.9	8.2
EPS	19.7	30.5	23.5	33.0	18.9	8.2

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	10146	8056	6336	9241	11779
% change	21.4	-20.6	-21.3	45.8	27.5
EBITDA	2056	1115	862	1978	2591
% change	19.3	-45.8	-22.7	129.5	31.0
Depreciation	521	548	612	678	708
EBIT	1535	567	250	1299	1883
Interest	127	171	108	124	124
Other Income	203	188	169	250	318
PBT	1610	505	5	1425	2077
% change	34.6	-68.7	-99.1	-	45.8
Tax	566	112	102	285	509
Tax Rate (%)	35.2	22.3	2246.3	20.0	24.5
Reported PAT	1033	349	-127	1095	1538
Adj.	0	-79	-306	0	0
Adj. PAT	1033	428	179	1095	1538
% change	21.6	-58.5	-58.1	510.7	40.5
No. of shares (cr)	46.6	46.6	46.6	46.6	46.6
Adj EPS (Rs)	22.2	9.2	3.9	23.5	33.0
% change	21.6	-58.5	-58.1	510.7	40.5
DPS (Rs)	5.3	12.2	12.2	12.2	12.2

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	2131	1052	617	2103	2785
Non-cash adj.	-448	-97	100	-189	-426
Changes in W.C	-1061	1070	215	-339	782
C.F. Operation	623	2026	932	1574	3141
Capital exp.	-1133	-1101	-967	-810	-387
Change in inv.	-521	-449	-776	-611	-625
Other invest.CF	0	0	0	0	0
C.F - Investment	-1166	-1239	-1986	-1215	-977
Issue of equity	-	-	-	-	-
Issue/repay debt	1062	106	701	400	-400
Dividends paid	-245	-566	-566	-566	-566
Other finance.CF	-127	-171	780	-124	-124
C.F - Finance	690	-632	915	-290	-1090
Chg. in cash	146	155	-138	69	1074
Closing cash	349	504	366	435	1509

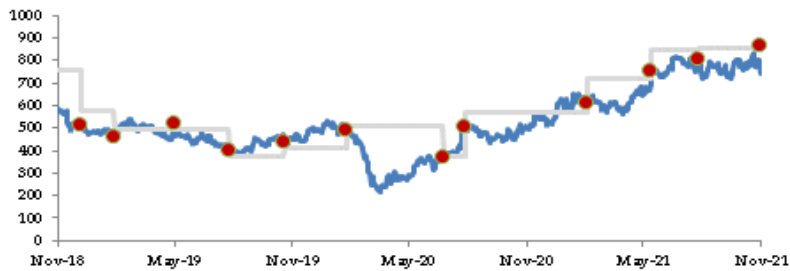
BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	349	504	366	435	1509
Accounts Receivable	2148	1494	1494	1899	1494
Inventories	1845	1735	1794	1579	1948
Other Cur. Assets	658	575	629	886	807
Investments	2186	2166	3148	3600	4302
Gross Fixed Assets	8451	9244	10464	11064	11414
Net Fixed Assets	3561	3806	4414	4336	3977
CWIP	831	1143	900	1106	1141
Intangible Assets	63	60	50	53	55
Def. Tax (Net)	-206	-51	-145	-116	-74
Other Assets	0	0	0	0	0
Total Assets	11435	11432	12650	13778	15158
Current Liabilities	620	1000	1116	1196	1541
Provisions	207	271	301	430	549
Debt Funds	3773	3878	4580	4980	4580
Other Liabilities	0	0	0	0	0
Equity Capital	93	93	93	93	93
Reserves & Surplus	5376	5159	5354	5882	6855
Shareholder's Fund	5469	5252	5447	5975	6948
Total Liabilities	11435	11432	12650	13778	15158
BVPS	116	112	116	127	148

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	20.3	13.8	13.6	21.4	22.0
EBIT margin (%)	15.1	7.0	3.9	14.1	16.0
Net profit mgn.(%)	10.2	5.3	2.8	11.8	13.1
ROE (%)	20.3	8.0	3.4	19.2	23.8
ROCE (%)	12.7	5.7	-19.6	11.4	14.5
W.C & Liquidity					
Receivables (days)	73.9	82.5	86.1	67.0	52.6
Inventory (days)	57.6	81.1	101.6	66.6	54.6
Payables (days)	48.4	54.3	64.5	47.5	42.4
Current ratio (x)	6.8	3.8	3.4	3.3	3.1
Quick ratio (x)	4.0	2.0	1.7	2.0	1.9
Turnover & Leverage					
Gross asset T.O (x)	1.2	0.9	0.6	0.9	1.0
Total asset T.O (x)	1.0	0.7	0.5	0.7	0.8
Int. covge. ratio (x)	12.1	3.3	2.3	10.5	15.2
Adj. debt/equity (x)	0.5	0.7	0.8	0.8	0.6
Valuation					
EV/Sales (x)	3.7	4.7	6.1	4.2	3.2
EV/EBITDA (x)	18.4	34.0	44.9	19.7	14.5
P/E (x)	33.4	80.6	192.5	31.5	22.4
P/BV (x)	6.3	6.6	6.3	5.8	5.0

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31 st August 18	Buy	751
28 th December 18	Buy	579
18 th February 19	Hold	494
24 th May 19	Buy	518
19 th August 19	Reduce	376
12 th November 19	Reduce	414
17 th February 20	Hold	507
14 th July 20	Hold	375
19 th August 20	Hold	535
17 th November 20	Buy	570
25 th February 21	Buy	723
07 th June 21	Buy	850
30 th August 21	Buy	855
23 rd November 21	Buy	861

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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