

Bharat Forge

Refer to important disclosures at the end of this report

CY22 outlook strong; moderate growth expectations in CY23

- The demand outlook for CY22 provided by 24 global entities, including CV/PV OEMs, non-auto companies and industry associations, offers a positive read-through for forging companies. India's MHCV segment is expected to witness a strong 28% volume growth in CY22. North America's HCV segment is likely to grow by up to 12% and Europe up to 8% in CY22. The outlook for CY22 remains unchanged, supported by large order books. However, the CY23 outlook has moderated to 9% (vs. 22% earlier) on account of macro uncertainties.
- The global PV segment is likely to clock high single-digit growth in CY22. The order book is healthy, but the Russia-Ukraine conflict and China's Covid lockdowns have created temporary supply issues. The outlook for the industrial segments remains robust owing to increased infra spends and an upturn in the oil & gas segment, which is likely to see up to 45% growth in CY22.
- For Bharat Forge (BHFC), we trim our FY23E/FY24E EPS by 3%/5% to account for some moderation in the demand outlook and lower margins. There are concerns about Europe/US recession (30% probability as per a Bloomberg survey). In a bear-case recession scenario, if we build in a 15% drop in exports (excluding oil and gas segment), our FY24E EPS declines by ~16% (please refer to page 4 for sensitivity analysis).
- Following the EPS revision, we expect a revenue CAGR of 14% over FY22-24E, aided by growth in auto/industrial segments in both domestic and overseas markets. Moreover, nascent segments, such as Defense, Renewables, Aerospace, Railways, E-mobility and Light-weighting solutions, should provide support to overall revenues. Our revised TP of Rs775 (Rs810 earlier) is based on 24x Jun'24E EPS for standalone operations. Retain Buy.

HCV volume growth outlook intact in CY22; moderation in expectations for CY23: With an order book of ~10 months, Volvo, Daimler, Paccar and ACT expect the HCV segment to grow strongly by up to 12% in North America and 8% in Europe in CY22. In May'22, US freight volumes declined by 18% yoy, while freight rates fell 11% (excluding fuel surcharge). However, freight volumes are still higher by 88% over the five-year average and rates are up almost 2x over the last two years. The outlook remains intact, and OEMs indicate that there is no increase in cancellations. The average age of the fleet for operators has increased by 10-15%, which should boost replacement demand and support volumes. However, the volume outlook for CY23 has been moderated to 9% (vs. 22% earlier) due to macro uncertainties. In comparison, India's MHCV segment is likely to grow strongly by 28% in CY22.

CY22 PV demand outlook positive, but supply issues persist: Volkswagen and Mercedes expect up to 10% growth in CY22 in their global businesses, led by pending order books and low channel inventories. The order book remains healthy, but the Russia-Ukraine conflict and China's Covid lockdowns have created temporary supply issues, resulting in some reduction in the Europe production outlook by IHS Markit to 5% from 7% earlier.

Robust CY22 outlook for industrials: Volvo and John Deere expect the construction equipment (CE) and tractor segments to grow by 5-20% in the North America and Europe regions in CY22, driven by higher commodity prices and infra spends. ICEMA, ACE and Escorts expect positive growth for the CE and tractor segments in India in FY23. The North American oil & gas segment is expected to see a multi-year upcycle, with up to 45% growth in CY22, as per Halliburton and Schlumberger. **Key risks:** 1) lower-than-expected growth in key segments and geographies; 2) supply constraints; 3) adverse commodity and currency rates.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 14\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	36,515	62,546	70,987	80,589	88,344
EBITDA	7,332	16,804	19,075	22,375	24,717
EBITDA Margin (%)	20.1	26.9	26.9	27.8	28.0
APAT	3,269	10,107	11,714	14,162	15,844
EPS (Rs)	7.0	21.7	25.2	30.4	34.0
EPS (% chg)	(42.5)	209.2	15.9	20.9	11.9
ROE (%)	5.8	15.5	15.5	16.6	16.4
P/E (x)	93.2	30.1	26.0	21.5	19.2
EV/EBITDA (x)	43.4	19.1	16.4	13.7	12.1
P/BV (x)	5.1	4.3	3.8	3.4	3.0

Source: Company, Emkay Research

CMP	Target Price
Rs 654	Rs 775 (▼)
as of (June 7, 2022)	12 months
Rating	Upside
BUY (■)	18.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(3)/(4.7)
Target Price change (%)	(4.3)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	25.2	30.4
Consensus	25.5	30.6
Mean Consensus TP (12M)	Rs 823	

Stock Details

Bloomberg Code	BHFC IN
Face Value (Rs)	2
Shares outstanding (mn)	466
52 Week H/L	848 / 595
M Cap (Rs bn/USD bn)	304 / 3.92
Daily Avg Volume (nos.)	1,495,506
Daily Avg Turnover (US\$ mn)	13.1

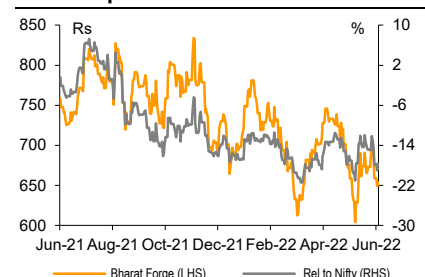
Shareholding Pattern Mar '22

Promoters	45.3%
FIIIs	19.8%
DIIIs	23.6%
Public and Others	11.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	7	(6)	(13)
Rel. to Nifty	(1)	3	(2)	(16)

Relative price chart



Source: Bloomberg

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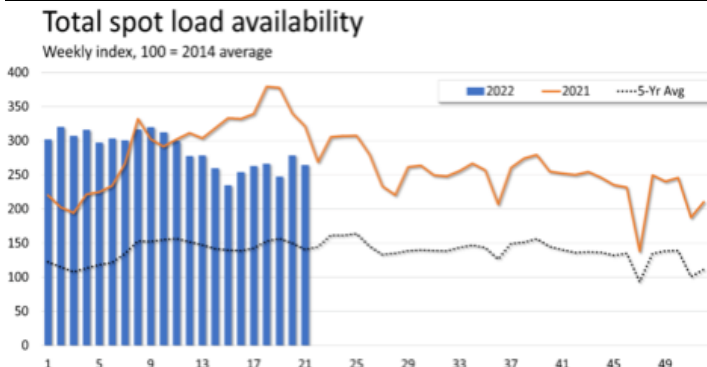
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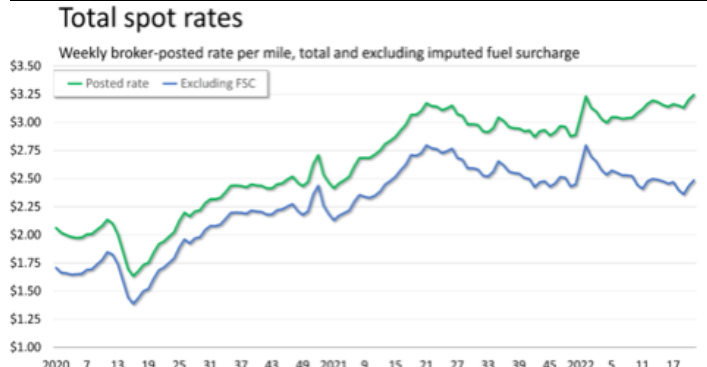
Story in Charts

Exhibit 1: North America truck load availability lower by 18% yoy, but still higher by 88% over the five-year average



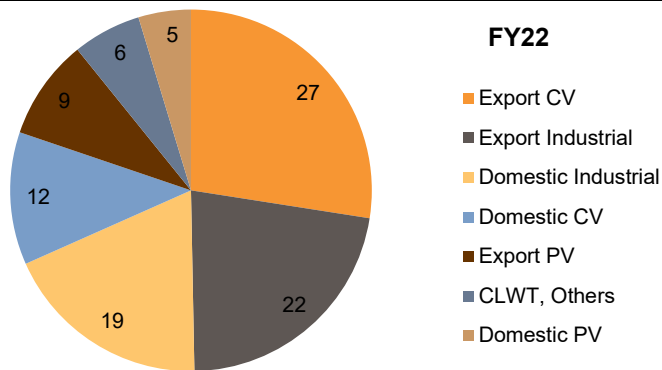
Source: Truckstop, FTR, Emkay Research

Exhibit 2: North America truck spot rates lower by 11% yoy (excluding fuel surcharge), but still higher by 2x over the last two years



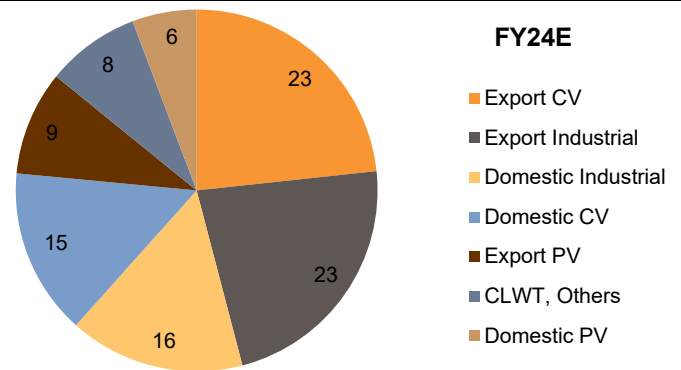
Source: Truckstop, FTR, Emkay Research

Exhibit 3: FY22 segment-wise mix



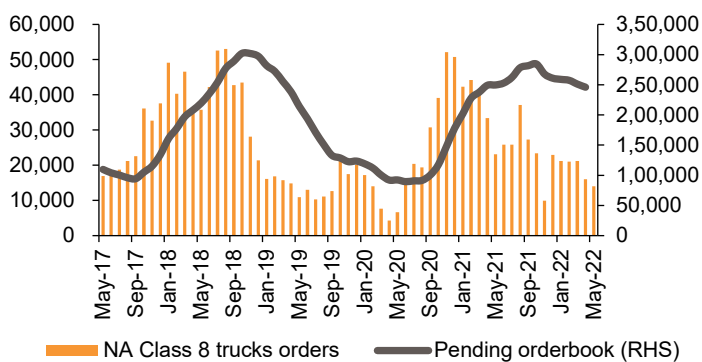
Source: Company, Emkay Research

Exhibit 4: Domestic share to increase due to higher growth in India CVs



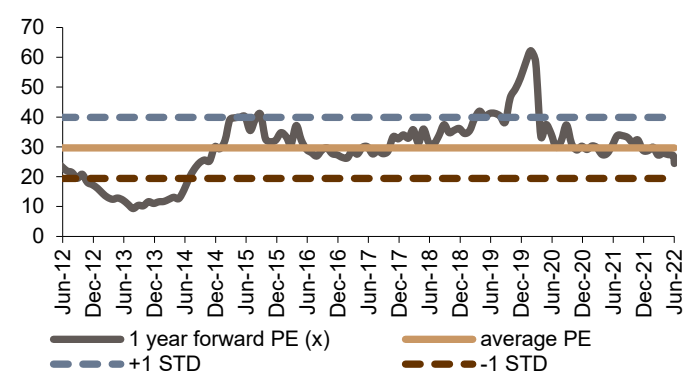
Source: Company, Emkay Research

Exhibit 5: North America Class 8 truck order backlog remains strong with ~10 months demand visibility



Source: Industry, Emkay Research

Exhibit 6: One-year forward P/E (Average: 30x, +1sd: 40x, -1sd: 19x)



Source: Company, Emkay Research

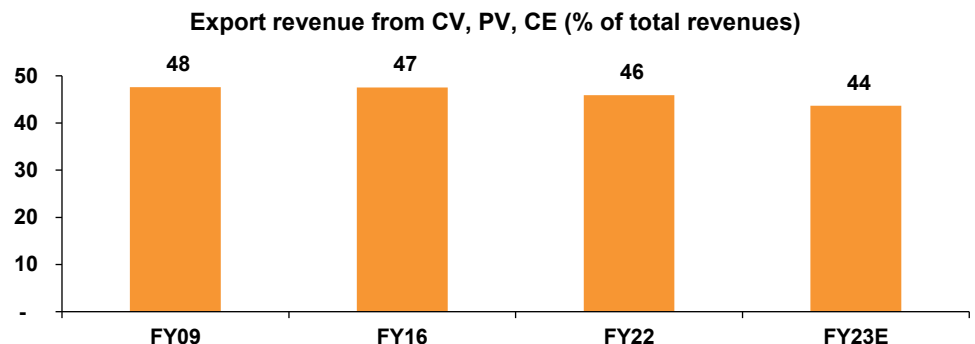
Exhibit 7: CY22 outlook remains strong, while CY23 growth expectations moderate

Segment	Company/Association	CY22 outlook	CY23 outlook
North America Class 8 trucks	Volvo	11% (unchanged)	
	Daimler	9% (unchanged)	Positive trend
	Paccar	7% (unchanged)	
	NADA	13% (unchanged)	
	ACT research (production)	12% (unchanged)	9% (earlier 22%)
North America CV (>6T)	Traton	15% (unchanged)	
Europe HCV	Volvo	8% (unchanged)	
	Daimler	1% (unchanged)	Positive trend
	Paccar	8% (unchanged)	
Europe CV (>6T)	Traton	10% (unchanged)	
Domestic MHCV	Volvo	28% (earlier 18%)	
North America Construction Equipment	Volvo	15% (unchanged)	
	CNH	5% (unchanged)	
	John Deere	10% (unchanged) for ending-Sep'22	
Europe Construction Equipment	Volvo	10% (unchanged)	
	CNH	flat (earlier +5%)	
India Construction Equipment	ICEMA	Positive (unchanged)	
	ACE	15% (unchanged)	
Tractors North America	CNH	15% (unchanged)	
	John Deere	20% (unchanged) for ending-Sep'22	
Tractors Europe	CNH	5% (unchanged)	
	John Deere	5% (unchanged) for ending-Sep'22	
Tractors India	Escorts	Positive (unchanged) for ending-Mar'23	
	Mahindra & Mahindra	Single digit positive (earlier negative) for ending-Mar'23	
Global Cars	Mercedes Benz	8% (unchanged)	
	Volkswagen	10% (unchanged)	
	Audi	8-13% (unchanged)	
	BMW	Flat (unchanged)	
North America Cars	IHS Markit	13% (unchanged)	11% (earlier 13%)
	NADA	4% (unchanged)	
Europe Cars	ACEA	8% (unchanged)	
	IHS Markit	5% (earlier 7%)	10% (unchanged)
UK Cars	SMMT	5% (earlier 15%)	17% (earlier 12%)
Oil & Gas	Halliburton	45% (earlier 25%)	multiyear upcycle
	Schlumberger	Mid teen (unchanged)	multiyear upcycle

Source: Emkay Research

Weak macros in US/ Europe could impact BHFC's exports

Exhibit 8: BHFC's exports to CV, PV and CE segments stand at 40%+ of overall revenues; Macro weakness in US/Europe regions could negatively impact exports



Source: Company, Emkay Research

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- During the 2001 macro slowdown and the 2009 recession in the US and Europe regions, BHFC's exports declined by 23% and 29%, respectively.
- As per a recent Bloomberg survey (Jun'22), there is a 30% probability of recession in US and Europe in the next one year. Considering a scenario of less severe recession compared to 2009. In a bear case scenario of a 15% decline in BHFC's exports (excluding Oil and Gas segment) in FY24, EPS forecast reduces by 16% to Rs25.6. Applying a 20x P/E multiple (one standard deviation below trailing 10-yr average), the fair value works out to Rs510. Compared to the 2009 recession multiple (two standard deviation below average), we factor in a higher multiple owing to the following factors: 1) ROE profile is better in the current cycle at 15-16% vs. 10-12%; 2) We expect the recession to be less severe than 2009; Also, the stock was oversold as it gave returns at a 14% CAGR over the 10-year period even from the peak levels; 3) the net debt profile is better in the current cycle at 0.5x vs. much higher leverage at over 3x.
- Considering a 30% probability of recession and 70% probability of positive GDP growth (our base case), the fair value works out to Rs700, which is still 6% above the current stock price.

Exhibit 9: Changes in estimates

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenues	72,224	70,987	(1.7)	13.5	83,013	80,589	(2.9)	13.5	90,514	88,344	(2.4)	9.6
EBITDA	19,535	19,075	(2.4)	13.5	23,291	22,375	(3.9)	17.3	25,540	24,717	(3.2)	10.5
Margin (%)	27.0	26.9	-18 bps	0 bps	28.1	27.8	-29 bps	89 bps	28.2	28.0	-24 bps	21 bps
Net Profit	12,081	11,714	(3.0)	15.9	14,867	14,162	(4.7)	20.9	16,478	15,844	(3.8)	11.9
EPS (Rs)	25.9	25.2	(3.0)	15.9	31.9	30.4	(4.7)	20.9	35.4	34.0	(3.8)	11.9

Source: Company, Emkay Research

Exhibit 10: Revenue assumptions: Expect strong revenue CAGR of 14% over FY22-24E

Key revenue assumptions (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY22-24E
Domestic CV	5,167	5,111	7,417	10,297	12,356	14,210	29
yoy (%)	(53)	(1)	45	39	20	15	
Domestic PV	2,263	2,161	2,936	3,829	4,786	5,408	28
yoy (%)	(5)	(5)	36	30	25	13	
Domestic Industrial	8,078	7,446	11,665	10,857	13,030	14,286	6
yoy (%)	(20)	(8)	57	(7)	20	10	
Total Domestic	15,508	14,718	22,018	24,983	30,172	33,903	17
yoy (%)	(34)	(5)	50	13	21	12	
Export CV	12,702	9,591	17,180	18,188	18,614	19,888	4
yoy (%)	(20)	(24)	79	6	2	7	
Export PV	5,047	4,496	5,619	6,181	7,108	7,819	12
yoy (%)	4	(11)	25	10	15	10	
Export Industrial	8,753	5,555	13,904	16,279	17,732	18,953	13
yoy (%)	(47)	(37)	150	17	9	7	
Total Export	26,502	19,642	36,703	40,648	43,454	46,661	9
yoy (%)	(29)	(26)	87	11	7	7	
CLWT				1,000	2,000	2,400	
yoy (%)					100	20	
Scrap	2,310	1,670	2,978	3,424	3,938	4,253	15
yoy (%)	(18)	(28)	78	15	15	8	
Other operating income	1,319	486	847	932	1,025	1,127	10
yoy (%)	(24)	(63)	74	10	10	10	
Total Revenue (Rs mn)	45,639	36,516	62,546	70,987	80,589	88,344	14
yoy (%)	(30)	(20)	71	13	14	10	

Source: Company, Emkay Research

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Volvo Trucks

Commercial Vehicles

- Q1CY22 **retails** grew by 15% yoy (-8% qoq) to 55,588 units, led by growth of 21% in Europe and 7% in North America.
- Q1CY22 **orders** declined by 43% yoy (-33% qoq) to 45,594 units, affected by restrictive placement due to large order books and long delivery times.
- Recent corrections in freight rates and demand have not impacted order activities, though truck utilization may decrease. It expects replacement demand to continue to support orders. Recovery of the Indian market continued during the quarter.
- **North America outlook:** Class 8 retails to grow by 11% yoy to 300,000 units in CY22 (unchanged)
- **Europe outlook:** HCV retails to grow by 8% yoy to 300,000 units in CY22 (unchanged)
- **India outlook:** MHCV retails to grow by 28% yoy to 325,000 units in CY22 (earlier +18%)
- Upside to the volumes outlook in North America and Europe is possible on the back of a strong order book, but it depends on supplies. Supply constraints are a result of chip shortages and China lockdowns.
- **EVs:** Orders stood at 494 units. Retails stood at 193 units in Q1CY22. Demand is led by environmentally conscious customers to meet CO2 targets. E-trucks have chips in the range of 1,600 to 4,000.
- Q1CY22 **VECV** orders grew by 6% yoy (+18% qoq) to 17,886 units and retails grew by 4% yoy (+20% qoq) to 17,860 units.

Construction Equipment

- Q1CY22 **retails** grew by 3% yoy (+24% qoq) in North America, but they declined by 19% yoy (+6% qoq) in Europe due to supply constraints.
- **CY22 outlook:** Retails will grow by up to 15% in North America (unchanged) and up to 10% in Europe (unchanged).
- **Demand** is being driven by a strong order book, investments in infrastructure, growth in the commodity segment and strong housing construction activity. Demand in India is impacted by price increases due to emission norm changes.
- **EVs:** Orders stood at 141 units and Retails stood at 113 units in Q1CY22.

Traton (Volkswagen)

- Q1CY22 orders (excludes Navistar) declined by 20% yoy (-10% qoq) to 65,731 units, while volumes fell 16% yoy (-15% qoq) to 50,697 units. **Volumes were impacted by supply constraints due to the Russia-Ukraine conflict. MAN's truck plant stood still for 6 weeks due to wiring harness shortages, and production continues to be impacted.**
- Demand remains robust; however, the production is constrained by shortages of chips and wiring harness. **Cancellation of orders remains low despite price hikes.**
- Expects Europe trucks (>6T) volume to grow by up to 10% (unchanged) in CY22.
- Expects North America truck (>6T) volumes to grow by up to 15% (unchanged) in CY22.
- EVs: New orders stood at 554 units and sales stood at 417 units in Q1CY22.

Paccar

- In Q1CY22, Retails grew by 2% yoy (-10% qoq) to 43,000 units. **Q2CY22 retails are expected to grow by up to 12% qoq to 44,000-48,000 units.**
- **North America Class 8:** CY22 retails to grow by up to 7% yoy to 260,000-290,000 units (earlier 250,000-290,000).
- **Europe HCV:** CY22 retails to grow by up to 8% yoy to 270,000-300,000 units (earlier 260,000-300,000 units).
- **Orders remain robust despite the softening of freight rates, and the order book is likely to accelerate in CY23 with the opening of slots.** Replacement demand is expected

to support volumes as the average age of operator's fleet compared to normal levels has increased by 10-15%.

- The company is not exposed too much to the situation in Ukraine and Russia, so the availability of parts and the ability to produce trucks remained good.

Daimler Trucks

- Q1CY22 orders declined by 8% yoy (-3% qoq) to 138,721 units, while volumes grew by 8% yoy (-17% qoq) to 109,286 units. Daimler CV volumes to grow by up to 14% yoy to 520,000 units in CY22. Upside to the outlook is possible if production improves.
- **North America outlook:** Class 8 retails to grow by up to 9% yoy to 295,000 units in CY22 (unchanged).
- **Europe outlook:** HCV retails to grow by 1% yoy to 280,000 units in CY22 (unchanged).
- **Demand is** expected to remain strong in CY22 and CY23. CY22 orders are sold-out and the acceptance of further new orders would depend on the availability of production slots. The recent slowdown in freight volumes has not impacted the order book and the cancellation rate remains low. Chip supply will considerably ease in H2CY22 and the company has diverted some chips from Asia to other regions to meet demand.
- **EVs:** Orders stood at 619 units and Retails stood at 163 units in Q1CY22.

ACT research outlook on North America Class 8 trucks

- Expects production to grow by 12% (unchanged) in CY22 and 9% (earlier 22%) in CY23; the CY22 outlook remains unchanged despite economic challenges, led by pent-up demand, truck shortages and high carrier profitability. The CY23 outlook tapered due to high interest rates and a slower economic outlook.
- Retails to grow by 9% (unchanged) in CY22 and 8% (earlier 19%) in CY23.

North American Dealers Association

Commercial vehicles

- Expects Class 8 volume to grow by 13% (unchanged) in CY22; Production to improve during CY22 as supply availability improves.
- Orders have declined due to restrictive placement on account of large order books and long delivery times.

Cars

- Expects volumes to grow by 4% yoy to 15.4mn units (unchanged) in CY22.
- Volumes will be limited by OEM production constraints stemming from the ongoing microchip shortage, the Russia/Ukraine war, and other supply-chain disruptions.

John Deere

- **Agriculture and Turf industry volumes** to grow by up to 20% (unchanged) in North America and 5% (unchanged) in Europe in SY22.
- **Construction Equipment industry volumes** to grow by up to 10% (unchanged) in North America in SY22.

Caterpillar

- Q1CY22 revenues grew by 14% yoy to USD13.6bn, led by growth across construction, resource and energy/transportation. The order book increased by USD 9.7bn yoy and USD3.4bn qoq.
- **Q2CY22 Outlook:** Expects higher sales sequentially due to continued strong end-user demand and pricing; Capex for CY22 to be ~ USD1.5bn.

Construction segment outlook: In North America, residential construction remains strong, with non-residential continuing to improve. Despite rising interest rates, infrastructure investment is expected to improve in late 2022 and beyond, supported by the U.S. Infrastructure Investment and Jobs Act.

Resource segment outlook: Commodity prices will continue to drive higher production and utilization levels, which will support more investments in equipment and services in 2022 and beyond.

Energy & Transportation segment outlook:

- Expect improving momentum in 2022 with strong order rates in most applications.
- In Oil & Gas, although customers remain disciplined, it is encouraged by continued strength in reciprocating engine orders, especially for large engine replacements as asset utilization increases.
- Power Generation orders remain healthy due to positive economic growth and continued data center strength.
- In 2022, while solar services are expected to remain steady and shipments are expected to improve in late 2022 or early 2023.
- Industrial remains healthy with continued momentum in construction, agriculture and electric power.
- In Rail, North American locomotive sales are expected to remain muted, but international locomotives are more promising. Expect growth in high-speed marine as customers upgrade ageing fleets.

CNH industrials

- **Tractor volumes** to grow by up to 15% yoy (unchanged) in North America and up to 5% yoy (unchanged) in Europe in CY22.
- **Construction Equipment volumes** to grow by up to 5% yoy (unchanged) in North America and flat (earlier +5%) in Europe in CY22.
- The order book has grown by 1.4x yoy for Tractors and 2.1x yoy for Construction Equipment in Q1CY22. The strong order book should support volumes in CY22.

Halliburton

- Revenue grew by 24% yoy (flat qoq) to USD4.3bn in Q1CY22, led by growth in North America (up 37%) and International markets (up 15%). EBITDA grew by 44%, supported by better pricing.
- North America rig counts rose 57% yoy (+15% qoq) in Q1CY22. Customers are focusing on short-cycle projects such as shale activity due to ESG and returns risk, rather than longer-cycle projects.
- **CY22 outlook:** North America revenues to grow by 45% yoy (earlier 25%) led by higher activity and prices. Witnessing tightness for oil and gas equipment in North America. Expect mid-teens growth for the international business.
- **Demand** outlook is positive, driven by improvement in drilling/tendering activity, favorable oil prices and increasing infrastructure activities. Expects multi-year upcycle for the oil and gas industry.

Schlumberger

- Q1CY22 revenue grew by 14% qoq (-4% qoq), led by growth in North America (+32%) and international markets (+10%).
- **CY22 outlook:** Expects revenue to grow by mid-teens (unchanged). Demand continues to strengthen and new investments are committed for diversifying energy supply, the duration and scale of the upcycle may potentially prove higher than earlier estimated.
- Expects multi-year growth cycle driven by demand-led capital spending.

Volkswagen

- Q1CY22 car retails declined by 23% yoy (-4% qoq) to 1.8mn units, led by a fall of 24% in China, 20% in Europe and 27% in North America.
- **Group outlook:** Retails are expected to grow by 5-10% in CY22 (unchanged). Concerns remain over ongoing supply bottlenecks, restrictions in China and the Russia-Ukraine conflict. Chip shortages are expected to improve in H2CY22
- The operating margin is expected to be in the range of 7%-8.5% for CY22 vs. 8% in CY21 (unchanged).
- The capex ratio is expected to reach 5.5% in CY22 as compared to 5.1% or EUR10.5bn in CY21. R&D costs are expected to be 7% in CY22 vs. 7.6% in CY21.
- The supply of wiring harness has recovered to more than 70% of normal levels.
- BEV's share in total volumes is expected to increase to 7-8% in CY22 from 5.1% in CY21.
- **Audi CY22 outlook:** Retails to grow by 8-13% (unchanged); Revenue growth to be higher at 17-22%; Operating margin at 9-11% (10.4% in CY21).
- **Audi Q1CY22 volumes:** Retails declined by 17% yoy (+16% qoq) to 385,084 units. BEV volume grew by 66% yoy (-17% qoq) to 24,236 units.

Mercedes Benz Cars

- Q1CY22 retails declined by 15% yoy (+5% qoq) to 501,625 units due to a fall of 20% in North America, 15% in Europe and 14% in China.
- **Expects volumes to be higher in CY22 across regions by up to 7.5% yoy (unchanged).** Chip supply is gradually improving, and the company expects stability in H2CY22.
- The sales mix is expected to remain favorable in CY22, with top-end vehicle volumes growing at a faster pace (>10% yoy).
- CY22 BEV mix is expected to increase to 15% from 5% in Q1CY22.
- CY22 Group EBIT margin is expected to remain elevated at prior year levels (around 12%).

BMW

- CY22 retails expected to be flat yoy (unchanged); Chip constraints are not expected to ease before H2CY22 and an underlying shortage might persist throughout CY23.
- EBIT margin for CY22 is expected to be in the range of 7% to 9% (unchanged). CY21 EBIT margin stood at 10.3%.
- By CY23, 90% of segments will have a BEV option. By CY30, BEVs would contribute 50% of retails. BEV volumes to increase by an over 50% CAGR till CY25 and 20% CAGR from CY25-30.
- The capex ratio is expected to be ~5% in CY22 vs. 4.5% in CY21.

European Automobile Manufacturers Association (ACEA)

- With chip supplies expected to stabilize in CY22, car registrations in the European Union are expected to grow by 8% (unchanged) to 10.5mn units.
- xEVs now account for almost 25% share.

SMMT

- Expects car registrations to grow by 5% (earlier 15%) in CY22 and 17% (earlier 12%) in CY23.
- Expects BEV share at 17% in CY22 and 20% in CY23.
- Expects PHEV share at 8% in CY22 and 9% in CY23.

IHS Markit

- May'22 outlook compared to Mar'22 outlook.
- North America: Expects car registrations to grow by 13% (unchanged) in CY22 and 11% (earlier +13%) in CY23.
- Europe: Expects car registrations to grow by 5% (earlier +7%) in CY22 and 10% (unchanged) in CY23. The outlook has been lowered due to wiring harness shortage on account of the Ukraine war.

Tata Motors**JLR**

- Covid lockdowns in China and the new Range Rover Sport model changeover are expected to limit volume improvements in Q1FY23, possibly resulting in negative EBIT and free cash flows. Volumes are expected to improve progressively over Q2FY23-Q4FY24.
- Strong demand for new Range Rover has pushed the order book to a new record of more than 168,000 units (New Range Rover 46, 000 units and Defender 41,000 units), up 13,000 units in Q4FY22.
- Q4FY22 BEV+HEV share at 14% vs. 13% in Q3FY22 and 9% in Q4FY21.
- Russia and Ukraine account for about 2.5% of global sales. New vehicle sales to Russia paused at Feb'22-end. JLR has a small number of parts sourced from Ukraine, but parts supply is being closely managed with suppliers to ensure maintenance of production.

India PV/CV

- CV demand remains buoyant on improving transporter sentiment, the government's thrust on infra spending and adequate finance availability. The reopening of educational institutions/offices should support demand for Buses.
- In E-Buses, 645+ units have been sold. The company is L1 for CESL tender of 5,000+ vehicles.
- PV demand is strong with an order book of 3-3.5 months for ICEs, and 5 months for EVs.
- In PVs, the share of CNG/EV stands at 9%/7% in Q4FY22 vs. 3%/5% in FY22.

Ashok Leyland

- The average age of vehicles is high at 9.9 years (earlier 9.5 years) and the scrappage policy would help in increasing replacement demand.
- Bus demand is expected to improve with the reopening of offices/educational institutions.

Indian Construction Equipment Manufacturers Association

- Expects positive turnaround in FY23 led by infrastructure projects.
- Volumes declined by 8% yoy in FY22, led by price hikes, lower road/state infrastructure spends, a ban on construction in Delhi NCR and heavy rains in Southern India.

Action Construction Equipment (ACE)

- In Q4FY22, the industry saw 2% yoy growth in crane volume, while ACE reported 17% growth. The backhoe industry posted a 28% fall in volume, while ACE's CE segment witnessed a 9% drop in volume. ACE outperformed the industry in both these segments.
- Revenue is expected to grow by 15% (unchanged) in FY23.

Mahindra and Mahindra

- Tractor volumes: **Expects FY23 tractor volume to grow in single digits.** Rural sentiments have improved in the last three months, aided by better crop realization and the absence of off-seasonal rains. Lately, the wheat export ban has slightly dented sentiments, but demand still remains healthy.

- **PV order book** remains robust at over 170,000 units (earlier 155,000 units). New Scorpio N has also witnessed a positive response and will increase share from urban areas. Thar production will be ramped up to 6,000 units per month. Cancellation of orders stands at 10-15%.

Escorts

- Tractor segment: Farmer sentiments are better due to an improvement in Rabi crop realizations and expectations of healthy Kharif crops owing to a normal monsoon.
- Construction Equipment volumes are likely to improve from Q2FY23 onward. The government's thrust on infrastructure is supporting demand.

MM Forgings

- Expects revenues to grow by 25% (unchanged) in FY23, led by strong demand across domestic and export markets.
- US truck production is expected to grow on the back of a strong order book, despite a slower economic growth outlook. Europe is witnessing lower demand due to the Ukraine war. India's growth will be strong, led by higher GDP.
- The PV segment was impacted by chip supply, and supply constraints may continue for the next 12-18 months.
- Machining share to increase from 51% of revenues to 60-65% in the medium term.

Exhibit 11: Peer valuation

Company	Mcap (Rs bn)	CMP (Rs/share)	Target price (Rs/share)	P/E		EPS CAGR (%)	ROE (%)		PEG ratio (x)	RoE adj. PEG ratio (x)
				FY23E	FY24E	FY24E	FY23E	FY24E	FY23E	FY24E
Consensus estimates										
Endurance Technologies	180	1,279		27.0	20.7	30	15.6	17.4	0.9	0.8
Sundaram Fasteners	161	764		25.8	19.0	36	22.0	24.8	0.7	0.6
Bosch India	416	14,120		29.0	23.9	21	14.1	15.0	1.4	1.3
Timken India	182	2,420		45.3	38.1	19	22.4	22.5	2.4	2.2
SKF India	169	3,410		35.5	30.1	18	22.3	22.6	2.0	1.8
Schaeffler India	350	2,240		42.3	19.8	113	20.4	21.2	0.4	0.3
ZF Commercial Vehicle	149	7,865		51.6	35.2	47	12.6	16.0	1.1	1.1
Sona BLW Forging	343	587		77.2	50.8	52	20.7	25.5	1.5	1.3
Emkay estimates										
Minda Industries	247	865	1,135	48.5	30.6	59	13.9	19.2	0.8	0.8
Bharat Forge	304	654	775	26.0	21.5	21	15.5	16.6	1.2	1.2
Motherson Sumi Wiring	205	65	80	34.2	26.5	29	47.5	49.2	1.2	0.9
Average				40.2	28.7	40	20.6	22.7	1.2	1.1

Note: PEG ratio - FY23 PE/FY24 EPS growth. ROE adj. PEG ratio - (PEG ratio/(1+FY24 ROE-Cost of Equity)). Cost of Equity - 12%.

Source: Company, Bloomberg, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	36,515	62,546	70,987	80,589	88,344
Expenditure	29,183	45,742	51,912	58,214	63,627
EBITDA	7,332	16,804	19,075	22,375	24,717
Depreciation	3,661	4,118	4,510	4,957	5,450
EBIT	3,671	12,686	14,566	17,417	19,267
Other Income	1,405	1,675	1,832	2,043	2,363
Interest expenses	779	1,073	984	826	782
PBT	4,297	13,288	15,413	18,634	20,848
Tax	1,028	3,181	3,699	4,472	5,004
Extraordinary Items	(148)	671	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,121	10,778	11,714	14,162	15,844
Adjusted PAT	3,269	10,107	11,714	14,162	15,844

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	931	931	931	931	931
Reserves & surplus	58,555	70,166	78,912	89,485	101,314
Net worth	59,486	71,098	79,843	90,416	102,245
Minority Interest	0	0	0	0	0
Loan Funds	37,117	39,992	30,753	28,641	27,572
Net deferred tax liability	2,346	2,888	2,965	3,058	3,162
Total Liabilities	98,949	113,978	113,561	122,115	132,980
Net block	34,590	33,011	33,232	32,574	31,624
Investment	35,693	38,998	43,998	49,998	59,998
Current Assets	38,163	53,919	54,966	60,987	65,159
Cash & bank balance	2,801	3,828	2,321	2,325	2,061
Other Current Assets	4,234	5,468	6,206	7,045	7,723
Current liabilities & Provision	12,196	14,431	18,885	21,895	24,251
Net current assets	25,967	39,488	36,081	39,092	40,908
Misc. exp	0	0	0	0	0
Total Assets	98,949	113,978	113,561	122,115	132,980

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,745	12,284	13,581	16,591	18,485
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,818	(10,481)	1,526	(3,582)	(2,440)
Operating Cashflow	6,733	1,079	18,777	16,412	19,676
Capital expenditure	(3,128)	(3,026)	(2,500)	(4,500)	(4,500)
Free Cash Flow	3,604	(1,946)	16,277	11,912	15,176
Investments	(8,485)	295	(5,000)	(6,000)	(10,000)
Other Investing Cash Flow	314	245	(1,832)	(2,043)	(2,363)
Investing Cashflow	(9,895)	(812)	(7,500)	(10,500)	(14,500)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	4,304	3,380	(9,239)	(2,113)	(1,068)
Dividend paid (incl tax)	0	(1,642)	(2,561)	(2,969)	(3,589)
Other Financing Cash Flow	(2,317)	(265)	0	0	0
Financing Cashflow	1,521	759	(12,784)	(5,908)	(5,440)
Net chg in cash	(1,641)	1,027	(1,508)	4	(263)
Opening cash position	4,442	2,801	3,828	2,321	2,325
Closing cash position	2,801	3,828	2,321	2,325	2,061

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	20.1	26.9	26.9	27.8	28.0
EBIT Margin	10.1	20.3	20.5	21.6	21.8
Effective Tax Rate	23.9	23.9	24.0	24.0	24.0
Net Margin	9.0	16.2	16.5	17.6	17.9
ROCE	4.1	10.1	10.8	12.4	12.7
ROE	5.8	15.5	15.5	16.6	16.4
RoIC	5.2	15.3	16.3	19.4	20.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.0	21.7	25.2	30.4	34.0
CEPS	14.9	30.5	34.8	41.1	45.7
BVPS	127.7	152.7	171.4	194.2	219.6
DPS	2.0	5.5	6.4	7.7	8.6

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	93.2	30.1	26.0	21.5	19.2
P/CEPS	43.6	21.3	18.6	15.8	14.2
P/BV	5.1	4.3	3.8	3.4	3.0
EV / Sales	8.7	5.1	4.4	3.8	3.4
EV / EBITDA	43.4	19.1	16.4	13.7	12.1
Dividend Yield (%)	0.3	0.8	1.0	1.2	1.3

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.2	0.2	0.1	0.0	(0.1)
Net Debt/EBIDTA	1.9	1.0	0.4	0.1	(0.2)
Working Cap Cycle (days)	231.6	208.1	173.6	166.5	160.5

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(20.0)	71.3	13.5	13.5	9.6
EBITDA	(29.5)	129.2	13.5	17.3	10.5
EBIT	(47.2)	245.5	14.8	19.6	10.6
PAT	(34.1)	245.3	8.7	20.9	11.9

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	13,073	13,718	16,066	16,021	16,741
EBITDA	3,332	3,910	4,553	4,034	4,308
EBITDA Margin (%)	25.5	28.5	28.3	25.2	25.7
PAT	1,804	2,279	2,818	2,370	2,640
EPS (Rs)	3.9	4.9	6.1	5.1	5.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	45.8	44.8	44.8	44.8	45.3
FII	24.9	25.3	25.1	23.4	19.8
DII	12.2	12.1	13.3	20.0	23.6
Public and Others	17.1	17.8	16.9	11.9	11.4

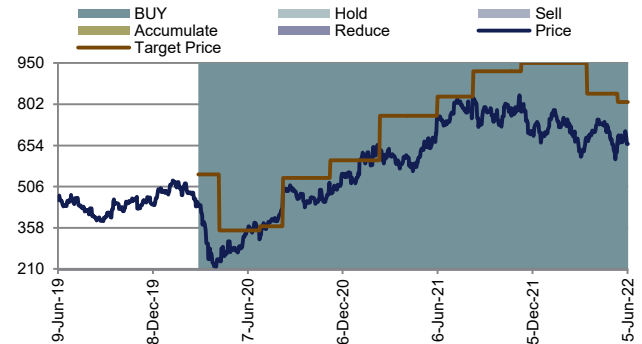
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
17-May-22	678	810	12m	Buy	Mumuksh Mandlesha
6-Apr-22	727	840	12m	Buy	Mumuksh Mandlesha
19-Mar-22	682	840	12m	Buy	Mumuksh Mandlesha
24-Feb-22	668	950	12m	Buy	Mumuksh Mandlesha
11-Feb-22	732	950	12m	Buy	Mumuksh Mandlesha
16-Nov-21	801	950	12m	Buy	Mumuksh Mandlesha
13-Nov-21	775	950	12m	Buy	Mumuksh Mandlesha
23-Aug-21	720	920	12m	Buy	Mumuksh Mandlesha
13-Aug-21	820	920	12m	Buy	Mumuksh Mandlesha
2-Jul-21	772	830	12m	Buy	Mumuksh Mandlesha
18-Jun-21	727	830	12m	Buy	Mumuksh Mandlesha
11-Jun-21	748	830	12m	Buy	Mumuksh Mandlesha
5-Jun-21	751	830	12m	Buy	Mumuksh Mandlesha
1-Jun-21	667	760	12m	Buy	Mumuksh Mandlesha
30-May-21	678	760	12m	Buy	Mumuksh Mandlesha
15-Feb-21	628	760	12m	Buy	Mumuksh Mandlesha
17-Nov-20	495	601	12m	Buy	Mumuksh Mandlesha
12-Nov-20	497	601	12m	Buy	Mumuksh Mandlesha
11-Oct-20	466	537	12m	Buy	Mumuksh Mandlesha
28-Sep-20	454	537	12m	Buy	Mumuksh Mandlesha
13-Aug-20	503	537	12m	Buy	Mumuksh Mandlesha
30-Jun-20	319	363	12m	Buy	Mumuksh Mandlesha
29-Jun-20	317	348	12m	Buy	Mumuksh Mandlesha
4-May-20	270	348	12m	Buy	Mumuksh Mandlesha
13-Apr-20	239	348	12m	Buy	Mumuksh Mandlesha
4-Mar-20	437	550	12m	Buy	Mumuksh Mandlesha

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	4.77	4.77	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.00	NA	0	0.00	0
Ashok Leyland	0.21	0.21	0%	0	4.32	0
Atul Auto	0.00	0.00	NA	0	0.00	0
Bajaj Auto	0.52	0.52	0%	0	10.80	0
Bharat Forge	0.17	0.17	0%	0	3.61	0
Eicher Motors	0.38	0.31	-21%	-8	6.39	0
Escorts	0.00	0.02	NA	2	0.38	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.34	0.34	0%	0	7.17	0
Mahindra & Mahindra	1.03	1.03	0%	0	21.56	0
Maruti Suzuki India	1.06	1.09	2%	2	22.73	0
Motherson Sumi	0.00	0.00	NA	0	0.00	0
Motherson Sumi Wiring India	0.00	0.02	NA	2	0.38	0
Tata Motors	0.79	0.80	2%	1	16.79	0
Tata Motors DVR*	0.10	0.11	10%	1	2.32	0
TVS Motor	0.17	0.17	0%	0	3.53	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base 1-Apr-19	7-Jun-21	6-Dec-21	7-Mar-22	6-May-22	Latest 6-Jun-22
EAP - Auto & Auto Ancillaries	100.0	129.4	127.0	112.9	125.8	136.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	129.0	126.0	112.1	125.4	136.2

*Performance measurement base date 1st April 2019

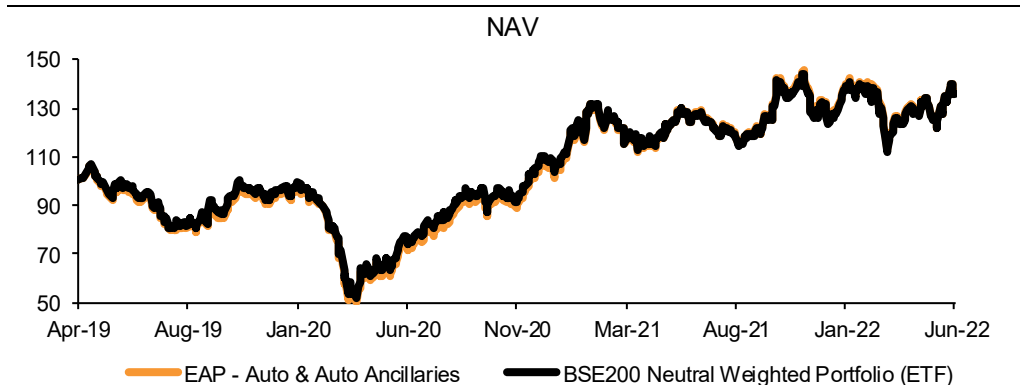
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	8.6%	21.0%	7.6%	5.6%
BSE200 Neutral Weighted Portfolio (ETF)	8.6%	21.5%	8.1%	5.6%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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