

Bharat Forge

Refer to important disclosures at the end of this report

Moderation in underlying industry growth outlook for CY23

- The demand outlook for CY22 provided by 23 global entities, including CV/PV OEMs, non-auto companies and industry associations, indicates tapering growth for forging companies. Weakening of the European and US economies does not bode too well for the HCV segment, which contributes over 25% to BHFC's revenue.
- Constrained by flat GDP growth expectation, high finance cost and increasing operating costs, there is steep deterioration in the CY23 North America Class 8 production outlook to -6% (vs. +9% earlier), as per Americas Commercial Transportation. This downturn is likely to persist in CY24, with 8% drop in production, due to change in emission norms leading to notable price hikes of +15%. In comparison, India's MHCV segment would see strong 28% growth in CY22.
- The global PV segment is likely to clock positive growth. The order book is healthy, but a muted H1CY22 and weakening macro outlook have led to reduction in growth expectations for CY22/23. The outlook for the industrial segments remains robust, owing to higher commodity prices and an upturn in the oil & gas segment, which is likely to see >35% growth in CY22.
- We retain HOLD on Bharat Forge with Sep-23 TP of Rs785, based on 24x Sep-24E EPS for standalone operations, factoring-in the limited upside potential and weak outlook for global CVs. Our valuation multiple is DCF based which also considers 15% premium for upside from nascent segments. Historically, valuation has been under pressure in global CV down-cycles.

HCV outlook moderates for CY23: Volvo, Daimler, Paccar, and Americas Commercial Transportation (ACT) expect the HCV segment in CY22 to grow by up to 17% (12% earlier) in North America and 8% (unchanged) in Europe, supported by pending order book and improving chip supplies. However, the weakening US economy has resulted in double-digit decline in freight volumes and freight rates in recent months (refer Exhibits 1 & 2). Volume outlook for CY23 Class 8 production has moderated to -6% (vs. +9% earlier). This downturn is expected to continue in CY24, with an 8% decline in production due to change in emission norms. Further, there are uncertainties on availability of gas. In comparison, India's MHCV segment is likely to grow strongly, by 28% (unchanged) in CY22.

PV demand outlook positive, but growth has moderated: Volkswagen and Mercedes expect up to 10% growth (unchanged) in CY22 in their global businesses, driven by their pending order book. The order book remains healthy, but a weak H1CY22, higher finance cost, weakening economy and uncertainties on availability of gas have resulted in reduction in outlook by IHS Markit to 1%/8% from 5%/10% earlier for Europe and to 12%/9% from 13%/11% earlier for North America for CY22/23, respectively. Further, BMW has reduced volume-growth expectation, from being flat earlier to a slight decline now, for the global market.

Robust CY22 outlook for industrials: Volvo and John Deere expect the construction equipment (CE) and tractor segments to grow by 5-15% (earlier 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. Though outlook for India is unchanged, it could be revised downwards due to slow construction activity, higher equipment prices and lower Kharif sowing. The North American oil & gas segment is expected to see a multi-year upcycle, with +35% (unchanged) growth in CY22, as per Halliburton. We **retain HOLD, with Sep-23 TP of Rs785**. Key upside risks: 1) Higher-than-expected growth in chief segments and geographies. 2) Strong order-wins in nascent segments. 3) Favorable commodity/currency rates.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 15\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	36,515	62,546	70,918	79,890	88,433
EBITDA	7,332	16,804	18,934	22,083	24,719
EBITDA Margin (%)	20.1	26.9	26.7	27.6	28.0
APAT	3,269	10,107	11,493	13,845	15,616
EPS (Rs)	7.0	21.7	24.7	29.7	33.5
EPS (% chg)	(42.5)	209.2	13.7	20.5	12.8
ROE (%)	5.8	15.5	15.3	16.4	16.3
P/E (x)	104.4	33.8	29.7	24.7	21.9
EV/EBITDA (x)	48.4	21.3	18.6	15.7	13.7
P/BV (x)	5.7	4.8	4.3	3.8	3.4

Source: Company, Emkay Research

CMP	Target Price
Rs 733 as of (August 26, 2022)	Rs 785 (■) 12 months
Rating	Upside
HOLD (■)	7.1 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	24.7	29.7
Consensus	25.1	30.8
Mean Consensus TP (12M)	Rs 842	

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)	341 / 4.27
Daily Avg Volume (nos.)	1,657,023
Daily Avg Turnover (USD mn)	14.5

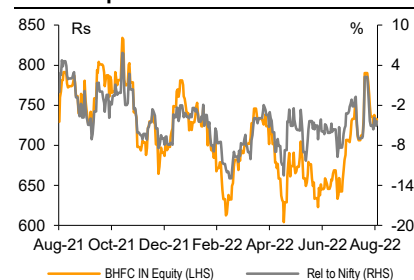
Shareholding Pattern Jun '22

Promoters	45.3%
FIIIs	18.8%
DIIIs	24.3%
Public and Others	11.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	10	9	1
Rel. to Nifty (2)	1	3	(5)	

Relative price chart



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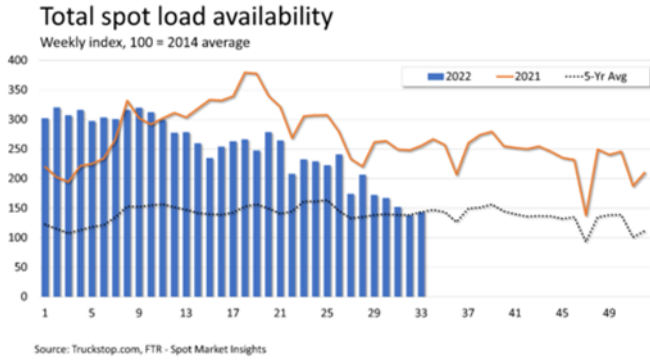
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Story in Charts

Exhibit 1: US freight volumes witness double-digit decline YoY



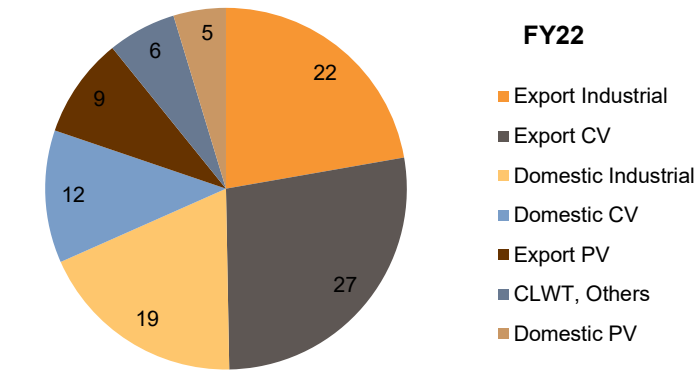
Source: Truckstop, FTR, Emkay Research

Exhibit 2: US freight rates (ex-fuel surcharge) also see a steep fall



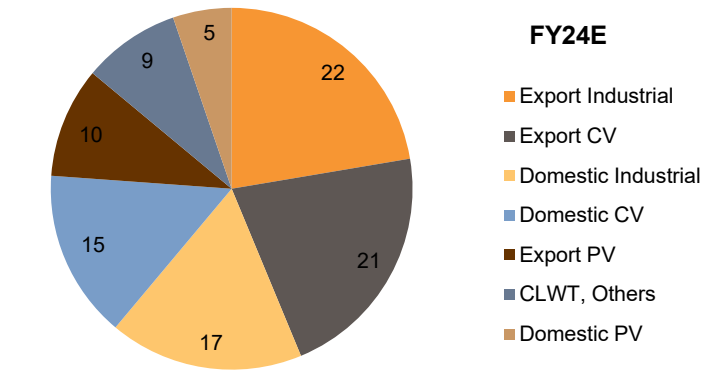
Source: Truckstop, FTR, Emkay Research

Exhibit 3: FY22 segment-wise mix



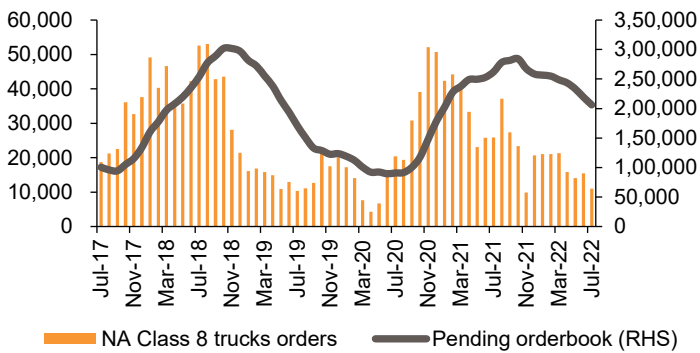
Source: Company, Emkay Research

Exhibit 4: Export share to reduce due to weak outlook for US/Europe CV segments



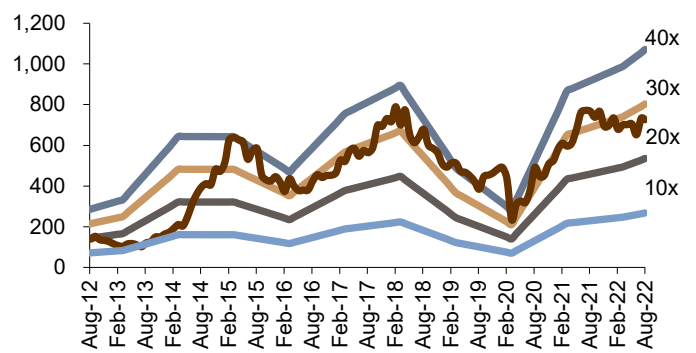
Source: Company, Emkay Research

Exhibit 5: North America Class 8 truck order backlog stands at ~8 months (earlier at ~10 months)



Source: Industry, Emkay Research

Exhibit 6: One-year forward PE (average is 25x for the 10-year period ending Mar-19)



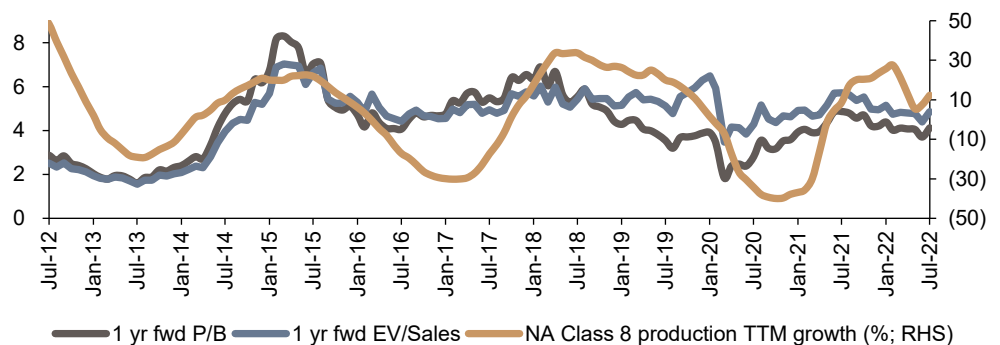
Source: Company, Emkay Research

Exhibit 7: Moderation in growth outlook for CY23

Segment	Company/Association	CY22 outlook	CY23 outlook
North America Class 8 trucks	Volvo	11% (unchanged)	
	Daimler	9% (unchanged)	
	Paccar	7% (unchanged)	
	NADA	13% (unchanged)	
	ACT research (production)	17% (earlier, +12%)	-6% (earlier, +9%)
North America CV (>6T)	Traton	15% (unchanged)	
Europe HCV	Volvo	8% (unchanged)	
	Daimler	1% (unchanged)	
	Paccar	8% (unchanged)	
Europe CV (>6T)	Traton	10% (unchanged)	
Domestic MHCV	Volvo	28% (unchanged)	
North America Construction Equipment	Volvo	15% (unchanged)	
	CNH	5% (unchanged)	
	John Deere	10% (unchanged) for year ending-Sep'22	
Europe Construction Equipment	Volvo	10% (unchanged)	
	CNH	flat (earlier, +5%)	
India Construction Equipment	ICEMA	Positive (unchanged)	
	ACE (revenue)	15-20% (unchanged)	
Tractors North America	CNH	15% (unchanged)	
	John Deere	15% (earlier, +20%) for year ending-Sep'22	
Tractors Europe	CNH	5% (unchanged)	
	John Deere	flat (earlier, +5%) for year ending-Sep'22	
Tractors India	Escorts	low to mid-single digit (unchanged) for year ending-Mar'23	
	Mahindra & Mahindra	3-5% (unchanged) for year ending-Mar'23	
Global Cars	Mercedes Benz	8% (unchanged)	
	Volkswagen	10% (unchanged)	
	Audi	7-12% (earlier, 8-13%)	
	BMW	slight decline (earlier, flat)	
North America Cars	IHS Markit	12% (earlier, 13%)	9% (earlier, 11%)
	NADA	-5% (earlier, +4%)	
Europe Cars	ACEA	8% (unchanged)	
	IHS Markit	1% (earlier, 5%)	8% (earlier, 10%)
UK Cars	SMMT	-3% (earlier, +5%)	18% (earlier 17%)
Oil & Gas	Halliburton	35% (unchanged)	Multi-year upcycle
	Schlumberger	high teens, at 18% (earlier, mid-teens)	Multi-year upcycle

Source: Emkay Research

Exhibit 8: Valuations have been under pressure during NA Class 8 down-cycles



Source: Company, Emkay Research

Exhibit 9: Bharat Forge revenue assumptions – Expect exports growth to be muted in FY24

Key revenue assumptions (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY22-24E
Domestic CV	5,111	7,417	9,616	12,020	13,824	27
YoY (%)	-1	45	30	25	15	
Domestic PV	2,161	2,936	3,381	4,193	4,738	20
YoY (%)	-5	36	15	24	13	
Domestic Industrial	7,446	11,665	11,583	13,871	15,234	9
YoY (%)	-8	57	-1	20	10	
Total Domestic	14,718	22,018	24,580	30,084	33,795	17
YoY (%)	-5	50	12	22	12	
Export CV	9,591	17,180	17,874	17,095	19,067	(0)
YoY (%)	-24	79	4	(4)	12	
Export PV	4,496	5,611	7,182	7,900	8,690	19
YoY (%)	-11	25	28	10	10	
Export Industrial	5,555	13,912	16,176	17,848	19,100	13
YoY (%)	-37	150	16	10	7	
Total Export	19,642	36,703	41,232	42,843	46,857	8
YoY (%)	-26	87	12	4	9	
CLWT		250	750	2,000	2,400	
YoY (%)				167	20	
Scrap	1,670	2,978	3,424	3,938	4,253	15
YoY (%)	-28	78	15	15	8	
Other operating income	486	847	932	1,025	1,127	10
YoY (%)	-63	74	10	10	10	
Total Revenue (Rs mn)	36,516	62,546	70,918	79,890	88,433	13
YoY (%)	-20	71	13	13	11	

Source: Company, Emkay Research

Volvo Trucks

Commercial Vehicles

- Q2CY22 **retails** grew by 33% YoY (+9% QoQ) to 60,833 units, led by growth of 53% in North America and of 27% in Europe.
- Q2CY22 **orders** declined by 8% YoY (+17% QoQ) to 53,388 units, affected by restrictive order slotting to manage the order book and cost inflation.
- On the back of high transport activities and pent-up replacement need, demand for trucks continues to uphold. Indicators like used-truck business and consumer finance indicate that demand is still healthy. **However, interactions with customers point to some likely freight-demand correction going forward, due to a muted GDP.**
- Rationing of gas in Germany could have an impact across industries in Europe.
- 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 (unchanged).
- EVs (trucks and construction equipment): Orders stood at 1,457 units and Retails stood at 434 units in Q2CY22. Demand is led by environmentally-conscious customers to meet CO₂ targets.
- Q2CY22 VECV orders grew by 162% YoY (-23% QoQ) to 13,726 units and retails grew by 148% YoY (-26% QoQ) to 13,279 units.

Construction Equipment

- Q2CY22 **retails** grew by 8% YoY in North America, but declined by 11% YoY 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).

Traton (Volkswagen)

- Q2CY22 orders (excluding Navistar) declined by 46% YoY (-27% QoQ) to 65,731 units. Volumes fell 26% YoY (-3% QoQ) to 69,527 units. **Volumes were impacted by supply constraints related to chips, wiring harness and other materials. There were also bottlenecks regarding logistics.**
- Outlook remains unchanged for CY22, but there are uncertainties due to high geopolitical & economic risks.
- Replacement demand is expected to be strong led by increasing average-fleet age and lead times of up to 12 months.
- Expects Europe truck (>6T) volumes 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 542 units and sales at 424 units in Q2CY22.

Paccar

- In Q2CY22, Retails grew by 17% YoY (+9% QoQ) to 47,000 units. Q3CY22 retails are expected at 44,000-48,000 units.
- North America Class 8:** CY22 retails to grow by up to 7% YoY (unchanged).
- Europe HCV:** CY22 retails to grow by up to 8% YoY (unchanged).
- The order book is full for CY22. Truck utilization remains high and average age of operators' fleet is higher by 10-15% compared with normal levels.
- Electric vehicles:** Seven truck models are in the production phase now. The company expects volume to improve from 100s of units to 1000s of units in coming years. Company is also focusing on new technology areas such as hydrogen fuel cells, connected vehicles and autonomous vehicles space.

Daimler Trucks

- Q2CY22 volumes grew by 4% YoY (+11% QoQ) to 120,961 units. Daimler CV volumes would grow by up to 14% YoY to 520,000 units in CY22. Upside to the outlook is contingent on production improving.
- North America outlook:** Class 8 retails to grow by up to 9% YoY (unchanged) to 295,000 units in CY22.
- Europe outlook:** HCV retails to grow by 1% YoY (unchanged) to 280,000 units in CY22.
- Demand** remains favorable for H2CY22. Expect supply to improve sequentially.
- EVs:** Orders stood at 661 units and Retails clocked at 283 units in Q2CY22.

ACT research outlook on North America Class 8 trucks

- Expect production to grow by 17% (earlier +12%) in CY22 and decline by 6% (earlier +9%) in CY23; the CY23 outlook has reduced due to the subdued macro outlook and expectation of weak freight volumes/rates. This downturn is expected to persist in CY24 with an 8% decline in production due to change in emission norms.
- Retails to grow by 14% (earlier, +9%) in CY22 and decline by 10% (earlier, +8%) in CY23. CY24 retails to decline by 2%.

North American Dealers Association

Commercial vehicles

- Expect Class 8 volume to grow by 13% (unchanged) in CY22; production to improve in remaining-CY22, as supplies improve.
- Orders have declined due to restrictive placement, on account of large order books and long delivery times.

Cars

- Expects volumes to decline by 5% YoY (earlier +4%) to 14.2mn units in CY22.
- Volumes will be limited by chip shortages and higher finance cost.

John Deere

- Agriculture and Turf industry volumes** to grow by up to 15% (earlier, +20%) in North America and stay flat (+5% earlier) in Europe in SY22. Downward revisions are due to supply constraints.
- Construction Equipment industry volumes** to grow by up to 10% (unchanged) in North America, in SY22.
- Expect favorable conditions to continue in SY23, based on the early-order programs. Working closely with suppliers to meet higher levels of customer demand next year.

Caterpillar

- Q2CY22 revenues grew by 11% YoY to USD14.3bn, led by growth across construction, resource and energy/transportation.
- Q3CY22 Outlook: Expect higher sales sequentially due to continued end-user demand and pricing; order level and backlog remain strong. Dealer-inventory level remains at the low end of the typical range, and rental fleets are aging.

Construction segment outlook

- In North America, the non-residential segment continues to be strong due to construction backlog, while residential construction is moderating from the strong level experienced since early-2021. Infrastructure investment is expected to improve in late-2022 & beyond, supported by the US Infrastructure Investment and Jobs Act.

Resource segment outlook

- Company continues to see high equipment utilization and parked trucks remain at low levels, supporting continued demand for both, equipment and services. In Heavy Construction, Quarry and Aggregates, the company expects continued growth in 2022.

Energy & Transportation segment outlook:

- Expect improvement in momentum in 2022, with strong order rates in most applications.
- In Rail, North American locomotive sales are expected to remain muted.

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 5% YoY (unchanged) in Europe in CY22.
- The order book has grown by 2.1x YoY for Tractors and 2.4x YoY for Construction Equipment in Q2CY22. The strong order book should support volumes in CY22.

Halliburton

- Revenue grew by 37% YoY (+18% qoq) to USD5.1bn in Q2CY22, led by growth in North America (+55%) and International markets (+24%).
- North America rig counts rose 58% YoY (flat QoQ) in Q2CY22. Customers are focusing on short-cycle projects such as shale activity due to ESG and returns risk, rather than on longer-cycle projects.
- CY22 outlook:** The North America market is strong, growing steadily and is sold-out. North America revenues to grow over 35% YoY (unchanged). Witnessing tightness for oil and gas equipment in North America. Expect a mid-teen growth for the international business. Expect international markets to witness multiple-year growth.
- Demand** outlook is positive, driven by improvement in drilling/tendering activity, elevated oil prices and increasing infrastructure activities. Expects multi-year upcycle for the oil & gas industry.

Schlumberger

- Q2CY22 revenue grew by 20% YoY (+14% QoQ), led by growth in North America (+42%) and international markets (+15%).
- CY22 outlook:** Expects revenue to grow in the high-teens, at 18% (earlier expectation of a mid-teen growth) to USD27bn. Despite near-term concerns over a global economic slowdown, the combination of energy security, favorable prices and urgency to grow production capacity is expected to support growth.
- Expects a multi-year growth cycle, driven by demand-led capital spending.

Volkswagen

- Q2CY22 car retails declined by 23% YoY (+4% QoQ) to 1.9mn units, led by a fall of 30% in Europe (+4% QoQ), 25% in North America (+27% QoQ), and 16% in China (-5% QoQ), due to semiconductor shortages, Covid lockdowns and the Russia-Ukraine conflict.
- Group outlook:** Retails are expected to grow by up to 10% in CY22 (unchanged). Chip supplies are expected to improve in H2CY22, but undersupply may persist till CY23.
- The operating margin is expected to be in the 7-8.5% range for CY22 vs. 8% in CY21 (unchanged).
- PowerCo (new battery company), which was launched to bundle group-wide battery activities, targets start of production at the Salzgitter plant in 2025, with production capacity of ~40GWH per year.

- The capex ratio is expected to reach 5% in CY22 (previously 5.5%) as compared with 5.1% or EUR10.5bn in CY21. R&D costs are expected to be 8% in CY22 (previously, 7%) vs. 7.6% in CY21.
- The supply of wiring harnesses is mostly back to normal.
- Challenges will arise, particularly from the economic situation, the increasing competitive intensity, volatile commodity & foreign-exchange markets, securing supply chains and more stringent emissions-related requirements.
- BEV share in total volumes stood at 6% in Q2CY22. 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 7-12% (8-13% previously); Revenue growth to be higher at 17-22% (unchanged); Operating margin to range at 9-11% (unchanged) vs 10.4% in CY21.
- **Audi Q2CY22 volumes:** Retails declined by 23% YoY (+4% QoQ) to 400,015 units.
- Order book of EVs has increased from Q1CY22 levels. Current waiting period for Audi Q4 e-tron is around a year.

Mercedes Benz Cars

- Q2CY22 retails declined by 16% YoY (-1% QoQ) to 496,419 units, owing to fall of 25% in China, 16% in Europe and 3% in North America.
- **Expects retails in H2CY22 to be higher than in H1CY22. CY22 volumes to be slightly above (up to +7.5% YoY), across regions (unchanged).**
- The sales mix is expected to remain favorable in CY22, with top-end vehicle volumes growing at faster pace (>10% YoY).
- Europe has been facing some resilience in terms of potential gas supply bottlenecks, but all operations are currently stable. Company has already reduced gas consumption by 10%, and plans to reduce it by 50% in Germany via green electricity and fossil fuels.
- CY22 EBIT margin guidance is expected to remain elevated at levels slightly above the previous year's (earlier at prior-year levels).
- Company is currently ramping up production of EQS SUV that is set to launch soon.
- Semiconductor constraints will continue through CY22 and most likely spill into next year too.

BMW

- CY22 retails expected to be slightly lower YoY (earlier expectation: flat growth). The ongoing supply bottlenecks, particularly for semiconductors, the war-torn Ukraine and interruptions in supply chains have led to a decline in deliveries in H1CY22. Volumes in H2CY22 to be solidly higher YoY, but would not fully compensate for the lost volume in H1CY22. As a consequence, deliveries for the year are expected to be slightly below previous year's.
- Ongoing inflation and interest rate hikes will continue to shape the macroeconomic environment in coming months and impact demand. Accordingly, the above-average order bank, particularly in Europe, is expected to normalize towards the end of the year.
- EBIT margin for CY22 is expected to be in the 7-9% range (unchanged). CY21 EBIT margin stood at 10.3%.
- By CY23, 90% of the segments will have a BEV option. By CY30, BEVs would contribute 50% of retails. BEV volumes to increase at over 50% CAGR till CY25 and at 20% CAGR over CY25-30.

SMMT (UK car industry association)

Outlook: Jul-22 vs Apr-22

- Expects car registrations to decline by 3% (earlier, +5%) in CY22 and 18% (earlier, 17%) in CY23.
- Expects BEV share at 16% in CY22 and 20% in CY23.

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- Expects PHEV share at 7% in CY22 and 8% in CY23.
- The outlook has been lowered due to ongoing global supply chain issues, predominantly the lack of semiconductors, exacerbated by Covid lockdowns in key manufacturing and logistics centers as well as the war in Ukraine. In addition, there are increased economic headwinds, largely around the cost of living.

IHS Markit

Outlook: Aug-22 vs May-22

- Europe: Expects volumes to grow by 1% (earlier, 5%) in CY22 and by 8% (earlier, 10%) in CY23.
- North America: Expects volumes to grow by 12% (earlier, 13%) in CY22 and by 9% (earlier, 11%) in CY23.
- The outlook has been lowered due to deterioration in near-term expectations for chip supply and enhanced risk for macroeconomic conditions.

Tata Motors

JLR

- Covid lockdowns in China and slower-than-expected ramp up of new-generation Range Rover/Range Rover Sport models due to supply chain constraints limited the volume improvements in Q1FY23.
- Wholesale volumes are expected to improve to 90,000 units in Q2 and progressively improve thereafter.
- Higher volumes and commodity price reduction should support margins ahead. The target is to achieve a 5% EBIT margin and GBP1bn positive free cash flow in FY23.
- Strong demand for the new Range Rover has pushed the order book to a new record, at more than 200,000 units (New Range Rover: 62,000 units; Defender: 47,000 units; and New Range Rover Sport: 20,000 units). Order book has increased by 32,000 units in Q1FY23.
- Cost-savings program (Refocus) has led to savings of GBP250mn in Q1FY23, and full-year target stands at +GBP1bn.

India CV/PV businesses

- Cargo CV demand remains buoyant on account of improving fleet utilization, government thrust on infra spending, and freight rates.
- Passenger CV demand is robust because of re-opening of offices/educational institutions, pickup in the tour & travels segment, and orders from state transport undertakings.
- PV demand is strong, with an order book of up to three months for ICEs and up to seven months for EVs.
- The recent reduction in commodity prices should support margins in H2FY23.
- India CV EBITDA margin is expected to improve to double digits on account of better scale, cost savings, and favorable commodity prices.

Ashok Leyland

- Cargo MHCV demand outlook remains positive, on account of a favorable macro environment and government thrust on infra spending. Retail customers (small operators) are gradually coming back to the market.
- Bus demand remains positive on re-opening of offices and educational institutions. The company has better market share in the bus segment.
- Q1 LCV sales have been impacted by semiconductor shortages. Improving supplies should support ramp-up in volumes.
- Softening of steel prices should reflect from Q2. Commodity inflation pressure continues in castings, forgings, tyres, etc.; and the company is taking price hikes in Q2 as well.
- Management aspires to operate at an EBITDA margin of 10-11%.

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- Switch Mobility India has an order book of 5,600 e-buses related to BEST, BMTC, and other private orders. E-LCVs are expected to be introduced in Q4FY23. A gradual shift is expected towards e-LCVs.

Indian Construction Equipment Manufacturers Association

- Q1FY23 domestic volumes grew by 62% YoY (-14% QoQ) to 21,299 units on a low base. Q1FY23 export volumes grew by 27% YoY (-7% QoQ) to 1,738 units.
- Sequential decline was on a high base, given that sales generally pick up in the last quarter of a financial year. The decline was also a result of slowdown witnessed in the highway construction activity from Q4FY22. In Q1FY23, highway construction declined by 57%.
- Overall customer confidence and sentiment to invest in new equipment, particularly the hiring community, continued to be low, thus affecting volumes. Higher cost of equipment is prompting contractors to wait for prices to reduce. Going ahead, revival in construction activity would be vital.

Action Construction Equipment (ACE)

- Revenue is expected to grow by 15-20% (unchanged) in FY23. Estimates may be revised in coming quarter, due to high inflation and macroeconomic conditions.

Mahindra and Mahindra

- Management expects FY23 tractor industry volumes to grow by 3-5%, led by healthy reservoir levels and normal monsoon outlook. Industry volume is expected to witness a 7-8% CAGR over the next 7-8 years.
- Demand remains robust across auto segments. Constraints remain in terms of chip supplies and sourcing from China. However, volumes are expected to improve ahead. Currently, ~10% of the volumes are being impacted by shortfall in supplies.
- PV order book remains robust at over 273,000 units. The company can reach to a production level of +30,000 units per month from the current 27,000 levels with improvement in supplies. Cancellation of orders stands at 10-12%.
- Expect lower commodity cost benefits from Q3FY23.

Escorts

- Construction Equipment volumes are likely to improve Q2FY23 onwards. The government thrust on infrastructure is supporting demand.
- Tractor segment: Led by normal monsoon expectation, management expects low to mid-single digit growth for the tractor industry in FY23.
- Even though the monsoon season has been uneven, expectation is that the spread will improve going ahead. Reservoir levels are above historical averages which augurs well for Kharif crop.
- Q2 industry growth is expected in single digits due to the early festive season. Management expects margins to normalize in Q4.
- Construction segment:** Expect the construction segment to grow in high teens in FY23.
- Railway Equipment Division:** Expect double-digit growth in FY23.

MM Forgings

- Expects revenues to grow to Rs13-15bn (earlier, Rs14bn) in FY23. Expect volume at 80,000-85,000MT in FY23 (earlier, 80,000-90,000MT). Change in forecast is due to geopolitical turmoil in Europe and high inflation in USA.
- Higher gas prices or unavailability of gas could be positive for the company, as Europe-based manufacturers could be impacted. However, overall demand in Europe could be hit due to lesser production by OEMs. Higher inflation in the US market has started affecting exports.
- Domestic market demand remains strong. Till Jun-22, it was strong, but has somewhat cooled off during Jul-Aug '22; we expect it to bounce back from Sep-22, though.
- Machining share to increase from 52% of revenues to 60-65% in the medium term.

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Exhibit 10: On ROE adjusted PEG basis, Bharat forge trades at 1.4x vs 1x/1.1x to Motherson Wiring/Minda, respectively; the average for major ancillaries is 1.3x

Company	Mcap (Rs bn)	CMP (Rs/share)	Target price (Rs/share)	P/E (x)		EPS growth (%)	ROE (%)		PEG ratio (x)	RoE adj. PEG ratio (x)
				FY23E	FY24E	FY24E	FY23E	FY24E	FY23E	FY24E
Consensus estimates										
Endurance Technologies	203	1,443		32	24	35	15	18	0.9	0.9
Sundaram Fasteners	176	836		27	21	33	21	24	0.8	0.7
Bosch India	507	17,206		34	28	23	14	15	1.5	1.4
Timken India	221	2,943		50	41	22	23	23	2.3	2.1
SKF India	238	4,809		46	39	19	24	24	2.5	2.2
Schaeffler India	472	3,018		54	34	61	21	23	0.9	0.8
ZF Commercial Vehicle	186	9,789		63	42	48	13	16	1.3	1.2
Sona BLW Forging	306	524		69	45	54	20	26	1.3	1.1
Emkay estimates										
Minda Industries	322	563	600	60	39	53	15	20	1.1	1.1
Bharat Forge	338	726	785	29	24	20	15	16	1.4	1.4
Motherson Sumi Wiring	252	80	88	40	31	29	50	52	1.4	1.0
Average				46	33	36	21	23	1.4	1.3

Note: PEG ratio - FY23 PER/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	70,918	79,890	88,433
Expenditure	29,183	45,742	51,984	57,807	63,714
EBITDA	7,332	16,804	18,934	22,083	24,719
Depreciation	3,661	4,118	4,493	4,879	5,435
EBIT	3,671	12,686	14,441	17,204	19,284
Other Income	1,405	1,675	1,770	1,933	2,135
Interest expenses	779	1,073	1,089	920	871
PBT	4,297	13,288	15,122	18,217	20,548
Tax	1,028	3,181	3,629	4,372	4,931
Extraordinary Items	(148)	671	(280)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,121	10,778	11,212	13,845	15,616
Adjusted PAT	3,269	10,107	11,493	13,845	15,616

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	78,466	88,803	100,461
Net worth	59,486	71,098	79,398	89,734	101,393
Minority Interest	0	0	0	0	0
Loan Funds	37,135	39,500	30,736	28,623	27,553
Net deferred tax liability	2,346	2,888	2,963	3,055	3,157
Total Liabilities	98,967	113,485	113,097	121,411	132,103
Net block	34,590	33,011	33,248	32,669	31,734
Investment	35,693	38,998	41,998	47,998	56,998
Current Assets	38,163	53,919	56,412	61,934	67,137
Cash & bank balance	2,801	3,828	896	1,583	1,542
Other Current Assets	4,234	5,468	6,200	6,984	7,731
Current liabilities & Provision	12,179	14,923	18,812	21,640	24,215
Net current assets	25,984	38,996	37,601	40,294	42,921
Misc. exp	0	0	0	0	0
Total Assets	98,967	113,485	113,097	121,411	132,103

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,745	12,284	13,352	16,284	18,413
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,818	(10,481)	(1,856)	(2,556)	(3,057)
Operating Cashflow	6,733	1,079	14,981	17,133	18,908
Capital expenditure	(3,128)	(3,026)	(2,500)	(4,500)	(4,500)
Free Cash Flow	3,604	(1,946)	12,481	12,633	14,408
Investments	(8,485)	295	(3,000)	(6,000)	(9,000)
Other Investing Cash Flow	314	245	(1,770)	(1,933)	(2,135)
Investing Cashflow	(9,895)	(812)	(5,500)	(10,500)	(13,500)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	4,304	3,380	(8,763)	(2,114)	(1,069)
Dividend paid (incl tax)	0	(1,642)	(2,561)	(2,913)	(3,509)
Other Financing Cash Flow	(2,317)	(265)	0	0	0
Financing Cashflow	1,521	759	(12,413)	(5,946)	(5,449)
Net chg in cash	(1,641)	1,027	(2,933)	687	(40)
Opening cash position	4,442	2,801	3,828	896	1,583
Closing cash position	2,801	3,828	896	1,583	1,542

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	20.1	26.9	26.7	27.6	28.0
EBIT Margin	10.1	20.3	20.4	21.5	21.8
Effective Tax Rate	23.9	23.9	24.0	24.0	24.0
Net Margin	9.0	16.2	16.2	17.3	17.7
ROCE	4.1	10.1	10.7	12.2	12.7
ROE	5.8	15.5	15.3	16.4	16.3
RoIC	5.2	15.3	15.9	18.5	20.3

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.0	21.7	24.7	29.7	33.5
CEPS	14.9	30.5	34.3	40.2	45.2
BVPS	127.7	152.7	170.5	192.7	217.7
DPS	2.0	5.5	6.3	7.5	8.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	104.4	33.8	29.7	24.7	21.9
P/CEPS	53.1	25.9	23.0	19.7	17.5
P/BV	5.7	4.8	4.3	3.8	3.4
EV / Sales	9.7	5.7	5.0	4.3	3.8
EV / EBITDA	48.4	21.3	18.6	15.7	13.7
Dividend Yield (%)	0.3	0.8	0.9	1.0	1.2

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.2	0.2	0.1	0.1	0.0
Net Debt/EBIDTA	1.9	1.0	0.6	0.2	(0.1)
Working Cap Cycle (days)	231.7	205.2	188.9	176.9	170.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(20.0)	71.3	13.4	12.7	10.7
EBITDA	(29.5)	129.2	12.7	16.6	11.9
EBIT	(47.2)	245.5	13.8	19.1	12.1
PAT	(34.1)	245.3	4.0	23.5	12.8

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	13,718	16,066	16,021	16,741	17,594
EBITDA	3,910	4,553	4,034	4,308	4,601
EBITDA Margin (%)	28.5	28.3	25.2	25.7	26.2
PAT	2,279	2,818	2,370	2,640	2,717
EPS (Rs)	4.9	6.1	5.1	5.7	5.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	44.8	44.8	44.8	45.3	45.3
FIIIs	25.3	25.1	23.4	19.8	18.8
DIIIs	12.1	13.3	20.0	23.6	24.3
Public and Others	17.8	16.9	11.9	11.4	11.6

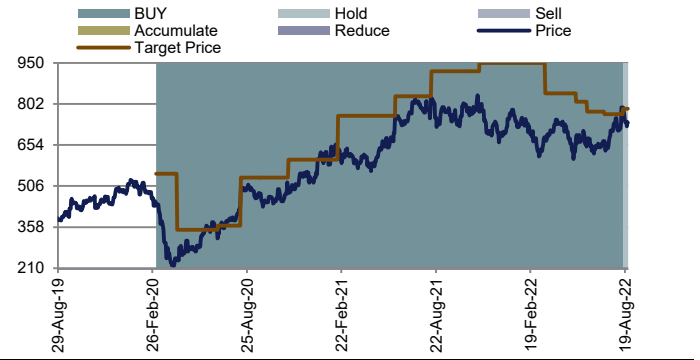
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Aug-22	790	785	12m	Hold	Mumuksh Mandlesha
10-Jul-22	669	765	12m	Buy	Mumuksh Mandlesha
7-Jun-22	654	775	12m	Buy	Mumuksh Mandlesha
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	5.06	5.06	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	0.20	0.23	14%	3	4.59	0
Atul Auto	0.00	0.03	NA	3	0.62	0
Bajaj Auto	0.51	0.29	-44%	-22	5.67	0
Bharat Forge	0.18	0.18	0%	0	3.53	0
Eicher Motors	0.47	0.47	0%	0	9.22	0
Escorts	0.00	0.03	NA	3	0.59	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.35	0.37	7%	2	7.39	0
Mahindra & Mahindra	1.16	1.20	3%	4	23.62	0
Maruti Suzuki India	1.11	1.15	3%	3	22.68	0
Minda Industries	0.00	0.00	NA	0	0.00	0
Motherson Sumi Wiring India	0.00	0.00	NA	0	0.00	0
Samvardhana Motherson International	0.00	0.00	NA	0	0.00	0
Tata Motors	0.78	0.79	2%	1	15.58	0
Tata Motors DVR*	0.10	0.13	23%	2	2.51	0
TVS Motor	0.20	0.20	0%	0	4.02	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					Latest
	1-Apr-19	25-Aug-21	25-Feb-22	25-May-22	25-Jul-22	25-Aug-22
EAP - Auto & Auto Ancillaries	100.0	116.3	132.2	132.9	149.5	156.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.6	131.2	132.7	149.1	156.1

*Performance measurement base date 1st April 2019

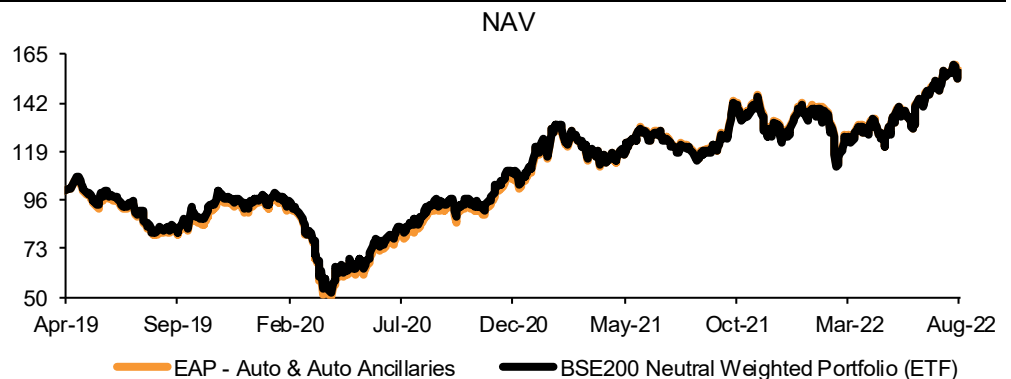
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	4.7%	17.7%	18.4%	34.6%
BSE200 Neutral Weighted Portfolio (ETF)	4.7%	17.7%	19.0%	35.0%

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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“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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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Aug 2022 00:13:01 (SGT)

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