

Bharat Forge

Refer to important disclosures at the end of this report

Q2 EBITDA slightly above estimates; Global CV outlook remains muted

Bharat Forge's Q2FY23 revenue grew by 16% YoY (3-yr CAGR at 14%) to Rs18.6bn, 11% above our estimates, owing to inventory build-up with CV customers, execution of new orders in global PVs, and higher defense revenue. EBITDA declined by 1% (3-yr CAGR at 15%) to Rs4.5bn, 3% above our estimate, led by higher revenue. Our earnings estimates for FY23-25E are broadly unchanged, despite the increase in revenue assumptions by 3-5%, owing to a reduction in operating margins. Going forward, a muted outlook is expected by Paccar (OEM), Volvo (OEM), and Americas Commercial Transportation for North America Class 8 trucks for CY23/CY24 and Europe heavy trucks for CY23. Considering subdued global CV outlook and limited upside potential, we retain HOLD with a Dec-23 TP of Rs820 (Rs785 earlier), based on 24x P/E for standalone and 13x P/E for subsidiaries. The increase in TP is due to rollover to Dec-23 valuation (Sep-23 earlier) and higher profitability for subsidiaries because of the recent order-win relating to artillery guns. Key upside risks: Higher-than-expected growth in major segments, new order-wins, and favourable commodity/currency rates.

Q2 EBITDA slightly above estimates: Revenue grew by 16% YoY (3-yr CAGR at 14%) to Rs18.6bn (est.: Rs16.8bn), above estimates on account of inventory build-up with CV customers, execution of new orders in global PVs, and higher defense revenue (armored vehicle orders to be executed mostly over Q2 and Q3). EBITDA declined by 1% (3-yr CAGR at 15%) to Rs4.5bn, 3% above estimates (est.: Rs4.4bn), owing to higher revenue. EBITDA margin contracted by 410bps YoY (-190bps QoQ) to 24.3% (est.: 26.1%), below estimates mainly due to lower gross margin. Gross margin declined by 470bps YoY (-310bps QoQ) to 55.6% due to higher input cost, adverse mix, and one-off cost of Rs130mn related to defense penalties. Other income grew by 48% to Rs477mn. Accordingly, adjusted PAT declined by 5% (3-yr CAGR at +6%) to Rs2.68bn (est.: Rs2.49bn), above estimates due to higher operating profit and other income. Adjusted PBT loss of subsidiaries widened to Rs1.2bn vs. loss of Rs596mn last year, as a result of cost pressures in Europe and startup costs at US Aluminum plant. **What we liked:** Healthy revenue traction in defense/PV segments. **What we did not like:** 1) Weak gross margin performance. 2) Increased losses in Europe subsidiaries.

Earnings call KTAs: 1) North America Class 8 outlook: Management expects steady production to continue at current levels (close to 28,000-29,000 production) in the subsequent months. 2) Europe HCV outlook: Demand is flat currently and could be flat or negative in CY23. 3) Domestic revenue is expected to be lower sequentially in Q3FY23; however, growth is expected to continue. 4) Defense: For export artillery guns order, the company would invest Rs300-400mn for the assembly facility. Forging-related revenue would be accounted in standalone. 5) Overseas subsidiaries: Expect margin improvement from Q1FY24. 6) Expect JS Autocast (subsidiary) revenue to grow by 10-15% in FY23, and the uptrend is expected to persist with a 20% CAGR over the next few years. Management expects double-digit margins in the next 2-3 years. 7) Sanghvi Forgings' (subsidiary) annualized revenue rate has almost doubled to Rs1bn post the acquisition. Management expects margin of ~20% going ahead.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	36,515	62,546	73,966	81,710	91,687
EBITDA	7,332	16,804	18,975	22,106	25,062
EBITDA Margin (%)	20.1	26.9	25.7	27.1	27.3
APAT	3,269	10,107	11,169	13,514	15,569
EPS (Rs)	7.0	21.7	24.0	29.0	33.4
EPS (% chg)	(42.5)	209.2	10.5	21.0	15.2
ROE (%)	5.8	15.5	14.9	16.0	16.4
P/E (x)	122.4	39.6	35.8	29.6	25.7
EV/EBITDA (x)	56.4	24.8	21.9	18.6	16.1
P/BV (x)	6.7	5.6	5.1	4.5	4.0

Source: Company, Emkay Research

CMP	Target Price
Rs 859 as of (November 14, 2022)	Rs 820 (▲) 12 months
Rating	Upside
HOLD (■)	(4.6) %

Change in Estimates

EPS Chg FY23E/FY24E (%)	1.3/ (1.1)
Target Price change (%)	4.4
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	24.0	29.0
Consensus	24.3	30.5
Mean Consensus TP (12M)	Rs 848	

Stock Details

Bloomberg Code	BHFC IN
Face Value (Rs)	2
Shares outstanding (mn)	466
52 Week H/L	897 / 595
M Cap (Rs bn/USD bn)	400 / 4.92
Daily Avg Volume (nos.)	1,929,619
Daily Avg Turnover (US\$ mn)	18.4

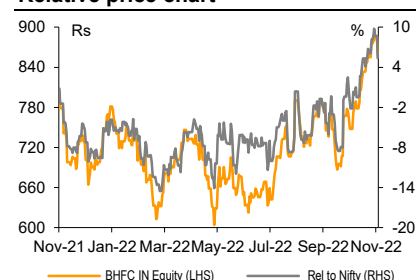
Shareholding Pattern Sep '22

Promoters	45.3%
FIIIs	19.3%
DIIIs	24.7%
Public and Others	10.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	9	37	11
Rel. to Nifty	8	5	18	9

Relative price chart



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Exhibit 1: Revenue assumptions: Expect revenue growth of 14% CAGR over FY22-25E

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	CAGR % FY22-25E
Domestic CV	5,111	7,417	10,049	11,757	13,520	22
YoY (%)	-1	45	35	17	15	
Domestic PV	2,161	2,936	3,744	4,492	5,076	20
YoY (%)	-5	36	28	20	13	
Domestic Industrial	7,446	11,665	12,678	14,061	16,299	12
YoY (%)	-8	57	9	11	16	
Total Domestic	14,718	22,018	26,470	30,310	34,896	17
YoY (%)	-5	50	20	15	15	
Export CV	9,591	17,180	18,628	17,773	19,901	5
YoY (%)	-24	79	8	-5	12	
Export PV	4,496	5,611	9,539	10,970	12,066	29
YoY (%)	-11	25	70	15	10	
Export Industrial	5,555	13,912	14,824	15,702	17,169	7
YoY (%)	-37	150	7	6	9	
Total Export	19,642	36,703	42,991	44,444	49,136	10
YoY (%)	-26	87	17	3	11	
Others	2,156	3,825	4,505	6,955	7,654	26
Total Revenue (Rs mn)	36,516	62,546	73,966	81,710	91,687	14
YoY (%)	-20	71	18	10	12	

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

Rs mn	FY23E				FY24E				FY25E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	70,489	73,966	4.9	18.3	78,888	81,710	3.6	10.5	88,818	91,687	3.2	12.2
EBITDA	18,844	18,975	0.7	12.9	22,149	22,106	(0.2)	16.5	25,222	25,062	(0.6)	13.4
Margin (%)	26.7	25.7	-108 bps	-121 bps	28.1	27.1	-102 bps	140 bps	28.4	27.3	-106 bps	28 bps
Net Profit	11,029	11,169	1.3	10.5	13,667	13,514	(1.1)	21.0	15,768	15,569	(1.3)	15.2
EPS (Rs)	23.7	24.0	1.3	10.5	29.3	29.0	(1.1)	21.0	33.9	33.4	(1.3)	15.2

Source: Company, Emkay Research

Exhibit 3: Actual vs. Estimates (Q2FY23)

(Rs mn)	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Total Revenue	18,639	16,789	18,100	11.0	3.0	Above our estimates due to inventory build-up with CV customers and execution of new orders
EBITDA	4,522	4,376	4,819	3.3	(6.2)	Above our estimates owing to higher revenue
EBITDA Margin (%)	24.3	26.1	26.6	(181) bps	(236) bps	
Adjusted Net profit	2,679	2,488	2,921	7.7	(8.3)	Above our estimates led by higher operating profit and other income

Source: Bloomberg, Company, Emkay Research

Exhibit 4: Quarterly Financial Summary (Standalone)

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ(%)	FY23 YTD	FY22 YTD	YoY(%)
Revenue	16,066	16,021	16,741	17,594	18,639	16.0	5.9	36,233	29,784	21.7
Expenditure	11,513	11,987	12,433	12,993	14,117	22.6	8.7	27,110	21,321	27.2
as % of sales	71.7	74.8	74.3	73.8	75.7			74.8	71.6	
Consumption of RM	6,384	6,681	7,250	7,272	8,281	29.7	13.9	15,554	11,595	34.1
as % of sales	39.7	41.7	43.3	41.3	44.4			42.9	38.9	
Employee Cost	1,275	1,284	1,283	1,357	1,351	6.0	(0.4)	2,708	2,491	8.7
as % of sales	7.9	8.0	7.7	7.7	7.2			7.5	8.4	
Other expenditure	3,854	4,022	3,901	4,364	4,485	16.4	2.8	8,849	7,235	22.3
as % of sales	24.0	25.1	23.3	24.8	24.1			24.4	24.3	
EBITDA	4,553	4,034	4,308	4,601	4,522	(0.7)	(1.7)	9,123	8,463	7.8
EBITDA margin (%)	28.3	25.2	25.7	26.2	24.3			25.2	28.4	
Depreciation	1,026	1,031	1,042	1,064	1,066	3.9	0.1	2,130	2,045	4.2
EBIT	3,528	3,002	3,266	3,536	3,457	(2.0)	(2.3)	6,993	6,418	
Other Income	322	358	662	259	477	48.1	84.0	737	655	12.4
Interest	142	118	407	263	357	152.2	35.7	621	547	13.4
PBT	3,708	3,242	3,520	3,532	3,577	(3.6)	1.2	7,109	6,526	8.9
Total Tax	891	873	879	815	897	0.7	10.1	1,713	1,429	19.8
Adjusted PAT	2,818	2,370	2,640	2,717	2,679	(4.9)	(1.4)	5,396	5,097	5.9
Extraordinary items Loss/(Gain)	-300	-1,004	21	280	-2			279	312	
Reported PAT	3,118	3,374	2,620	2,437	2,681	(14.0)	10.0	5,118	4,784	7.0
Adjusted EPS (Rs)	6.1	5.1	5.7	5.8	5.8	(4.9)	(1.4)	11.6	10.9	5.9

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	36,515	62,546	73,966	81,710	91,687
Expenditure	29,183	45,742	54,991	59,603	66,624
EBITDA	7,332	16,804	18,975	22,106	25,062
Depreciation	3,661	4,118	4,310	4,757	5,239
EBIT	3,671	12,686	14,665	17,349	19,823
Other Income	1,405	1,675	1,336	1,677	1,840
Interest expenses	779	1,073	1,305	1,245	1,177
PBT	4,297	13,288	14,696	17,782	20,486
Tax	1,028	3,181	3,527	4,268	4,917
Extraordinary Items	(148)	671	(279)	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,121	10,778	10,890	13,514	15,569
Adjusted PAT	3,269	10,107	11,169	13,514	15,569

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	931	931	931	931	931
Reserves & surplus	58,555	70,166	78,226	88,316	99,940
Net worth	59,486	71,098	79,158	89,247	100,871
Minority Interest	0	0	0	0	0
Loan Funds	37,135	39,500	37,238	35,983	33,261
Net deferred tax liability	2,346	2,888	2,903	2,920	2,941
Total Liabilities	98,967	113,485	119,298	128,150	137,072
Net block	34,590	33,011	33,431	32,974	32,235
Investment	35,693	38,998	41,998	47,998	54,998
Current Assets	38,163	53,919	62,111	68,757	76,308
Cash & bank balance	2,801	3,828	3,488	3,997	3,640
Other Current Assets	4,234	5,468	6,466	7,143	8,016
Current liabilities & Provision	12,179	14,923	18,492	22,029	26,919
Net current assets	25,984	38,996	43,619	46,728	49,389
Misc. exp	0	0	0	0	0
Total Assets	98,967	113,485	119,298	128,150	137,072

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,745	12,284	13,360	16,105	18,646
Other Non-Cash items	0	0	0	0	0
Chg in working cap	1,818	(10,481)	(5,275)	(3,216)	(3,568)
Operating Cashflow	6,733	1,079	11,287	16,339	18,468
Capital expenditure	(3,128)	(3,026)	(2,500)	(4,500)	(4,500)
Free Cash Flow	3,604	(1,946)	8,787	11,839	13,968
Investments	(8,485)	295	(3,000)	(6,000)	(7,000)
Other Investing Cash Flow	314	245	(1,336)	(1,677)	(1,840)
Investing Cashflow	(9,895)	(812)	(5,500)	(10,500)	(11,500)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	4,304	3,380	(2,262)	(1,255)	(2,722)
Dividend paid (incl tax)	0	(1,642)	(2,561)	(2,830)	(3,425)
Other Financing Cash Flow	(2,317)	(265)	0	0	0
Financing Cashflow	1,521	759	(6,128)	(5,330)	(7,324)
Net chg in cash	(1,641)	1,027	(340)	508	(356)
Opening cash position	4,442	2,801	3,828	3,488	3,997
Closing cash position	2,801	3,828	3,488	3,997	3,640

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	20.1	26.9	25.7	27.1	27.3
EBIT Margin	10.1	20.3	19.8	21.2	21.6
Effective Tax Rate	23.9	23.9	24.0	24.0	24.0
Net Margin	9.0	16.2	15.1	16.5	17.0
ROCE	4.1	10.1	10.3	11.5	12.3
ROE	5.8	15.5	14.9	16.0	16.4
RoIC	5.2	15.3	15.7	17.7	19.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.0	21.7	24.0	29.0	33.4
CEPS	14.9	30.5	33.2	39.2	44.7
BVPS	127.7	152.7	170.0	191.6	216.6
DPS	2.0	5.5	6.1	7.4	8.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	122.4	39.6	35.8	29.6	25.7
P/CEPS	57.7	28.1	25.9	21.9	19.2
P/BV	6.7	5.6	5.1	4.5	4.0
EV / Sales	11.3	6.7	5.6	5.0	4.4
EV / EBITDA	56.4	24.8	21.9	18.6	16.1
Dividend Yield (%)	0.2	0.6	0.7	0.9	1.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.2	0.2	0.2	0.1	0.0
Net Debt/EBIDTA	1.9	1.0	0.8	0.5	0.1
Working Cap Cycle (days)	231.7	205.2	198.0	190.9	182.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(20.0)	71.3	18.3	10.5	12.2
EBITDA	(29.5)	129.2	12.9	16.5	13.4
EBIT	(47.2)	245.5	15.6	18.3	14.3
PAT	(34.1)	245.3	1.0	24.1	15.2

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	16,066	16,021	16,741	17,594	18,639
EBITDA	4,553	4,034	4,308	4,601	4,522
EBITDA Margin (%)	28.3	25.2	25.7	26.2	24.3
PAT	2,818	2,370	2,640	2,717	2,679
EPS (Rs)	6.1	5.1	5.7	5.8	5.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	44.8	44.8	45.3	45.3	45.3
FII	25.1	23.4	19.8	18.8	19.3
DII	13.3	20.0	23.6	24.3	24.7
Public and Others	16.9	11.9	11.4	11.6	10.7

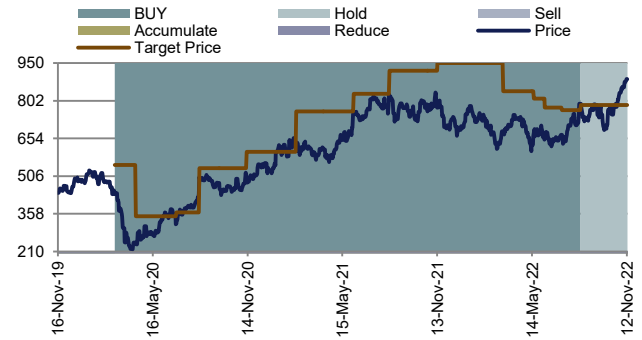
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-Oct-22	767	785	12m	Hold	Mumuksh Mandlesha
28-Aug-22	733	785	12m	Hold	Mumuksh Mandlesha
15-Aug-22	790	785	12m	Hold	Mumuksh Mandlesha
10-Jul-22	669	765	12m	Buy	Mumuksh Mandlesha
07-Jun-22	654	775	12m	Buy	Mumuksh Mandlesha
17-May-22	678	810	12m	Buy	Mumuksh Mandlesha
06-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
02-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
05-Jun-21	751	830	12m	Buy	Mumuksh Mandlesha
01-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
04-May-20	270	348	12m	Buy	Mumuksh Mandlesha
13-Apr-20	239	348	12m	Buy	Mumuksh Mandlesha
04-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	4.88	4.88	0%	0	100.00	
Amara Raja Batteries	0.00	0.00	NA	0	0.00	0
Apollo Tyres	0.00	0.02	NA	2	0.51	0
Ashok Leyland	0.20	0.21	8%	2	4.32	0
Atul Auto	0.00	0.02	NA	2	0.46	0
Bajaj Auto	0.45	0.25	-44%	-20	5.08	0
Bharat Forge	0.21	0.12	-42%	-9	2.47	0
Eicher Motors	0.45	0.45	0%	0	9.26	0
Escorts	0.00	0.02	NA	2	0.45	0
Exide Industries	0.00	0.00	NA	0	0.00	0
Hero Motocorp	0.32	0.34	7%	2	7.01	0
Mahindra & Mahindra	1.13	1.16	2%	2	23.72	0
Maruti Suzuki India	1.11	1.13	2%	2	23.18	0
Minda Industries*	0.00	0.02	NA	2	0.49	0
Motherson Sumi Wiring India	0.00	0.02	NA	2	0.46	0
Samvardhana Motherson International	0.00	0.02	NA	2	0.48	0
Suprajit Engineering	0.00	0.02	NA	2	0.47	0
Tata Motors	0.69	0.70	2%	1	14.32	0
Tata Motors DVR*	0.10	0.10	7%	1	2.12	0
TVS Motor	0.23	0.25	9%	2	5.20	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	12-Nov-21	13-May-22	12-Aug-22	11-Oct-22	11-Nov-22
EAP - Auto & Auto Ancillaries	100.0	141.0	124.8	156.4	149.8	157.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	139.9	124.6	156.2	149.0	157.2

*Performance measurement base date 1st April 2019

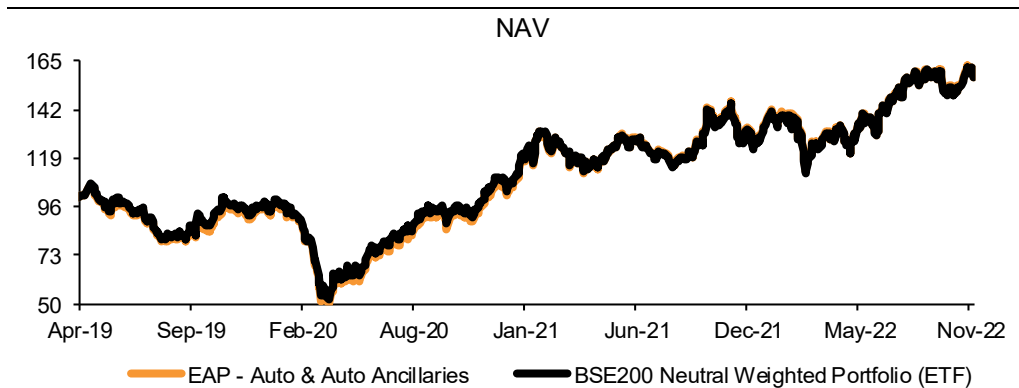
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	5.2%	0.7%	26.2%	11.7%
BSE200 Neutral Weighted Portfolio (ETF)	5.4%	0.6%	26.2%	12.3%

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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Emkay Rating Distribution

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

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