

November 14, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	950		875	
Sales (Rs. m)	88,210	1,01,160	82,869	90,424
% Chng.	6.4	11.9		
EBITDA (Rs. m)	23,552	28,021	22,292	25,228
% Chng.	5.7	11.1		
EPS (Rs.)	30.0	37.8	28.3	34.2
% Chng.	6.2	10.5		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	62,546	73,349	88,210	1,01,160
EBITDA (Rs. m)	17,157	18,704	23,552	28,021
Margin (%)	27.4	25.5	26.7	27.7
PAT (Rs. m)	10,532	10,777	13,992	17,618
EPS (Rs.)	22.6	23.1	30.0	37.8
Gr. (%)	230.2	2.3	29.8	25.9
DPS (Rs.)	3.0	5.5	7.0	7.0
Yield (%)	0.3	0.6	0.8	0.8
RoE (%)	16.1	14.3	16.5	18.1
RoCE (%)	12.6	12.3	14.5	16.2
EV/Sales (x)	6.7	5.7	4.8	4.1
EV/EBITDA (x)	24.4	22.4	17.8	14.8
PE (x)	38.0	37.1	28.6	22.7
P/BV (x)	5.6	5.0	4.4	3.8

Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.897 / Rs.595
Sensex / Nifty	61,624 / 18,329
Market Cap	Rs.400bn/ \$ 4,923m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.1497.78m

Shareholding Pattern (%)

Promoter's	45.25
Foreign	19.80
Domestic Institution	23.55
Public & Others	11.40
Promoter Pledge (Rs bn)	9.93

Stock Performance (%)

	1M	6M	12M
Absolute	14.9	36.6	10.9
Relative	8.0	17.0	9.2

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Diversification efforts to aid profitability

Quick Pointers:

- Defense export order won worth USD 155mn, for artillery products, will be executed over the next 36 months
- Passenger vehicle segment now contributes 18% to revenue vs 9% in FY18.

Bharat Forge's (BHFC) 2QFY23 standalone EBITDA margin at 24.3% (-40bps QoQ) disappointed due to higher RM cost (~45bps impact) and one-off charges on defense business (Rs 130mn). Lower share from the export business (57% vs 60% QoQ) despite higher USD realizations also impacted margins. Management highlighted that near-term CV demand looks positive in both India and export markets. Production schedules for Class-8 truck orders are booked for 2023. It has won orders for the export markets, passenger vehicles (18% of revenue, 7x growth since FY16) as well as industrial segments. Its subsidiary KSSL has won a defense export order worth USD 155mn which will be executed over next 36 months. Management expects 3x growth in defense revenue over the next few years, from Rs 3-5bn currently.

We increase our EPS estimates by 6/10% for FY24/25E, considering positive outlook for automotive industry as semiconductor supply issue eases out along with healthy order wins in the industrial space. We remain positive on the stock led by (1) multiple growth levers in domestic & export automotive segment with cyclical turnaround in CV industry and easing of the chip shortage going ahead, (2) strong double-digit growth in high margin non-auto business (3) revenue contribution from defense & renewable segment and (4) rising traction in E-mobility segment. Reiterate BUY with a revised target price of Rs 950 (Rs 875 earlier) at 28x Sep-24E EPS.

- 2QFY23 performance:** Shipment tonnage at 61.1k MT grew 5.6% QoQ led by healthy CV demand in both India and export business. However, realization growth was flat QoQ at Rs 304k (despite higher USD/INR rate of Rs 81) as exports contribution reduced to 57% vs 60% last quarter. Standalone revenue grew by 6% QoQ to Rs 18.6bn. EBITDA margin at 24.3% (-40bps QoQ) came below our expectation (PLe: 26.2%) obstructed by (1) RM cost impact of ~45bps (gross margins contracted 310bps QoQ) and (2) one-off charge of Rs 130mn on defense business. PAT came in at Rs 2.68bn (+9% QoQ).
- Key takeaways:** (1) **Defense segment:** BHFC's 100% subsidiary Kalyani Strategic Systems (KSSL) has won export order worth USD 155mn. This order will be executed over next 36 months. BHFC will undertake the core manufacturing of these artillery products; whereas, assembly, execution and testing will happen at KSSL. Defense segment revenue is expected to touch Rs 10bn over the next few years, from Rs 3-5bn currently. (2) **Demand outlook:** Management highlighted that production schedules are booked for 2023. 2024 is also expected to be a strong year. India CV demand looks positive in the near to medium-term. However, due to lower-than-expected CV sales, Q3 is slightly more depressed than Q2. It has won new orders of Rs 9bn in 2Q, largely in the export business driven by market share gains, and also in PV and industrial sectors. (3) **Subsidiaries:** Acquisition of JS Autocast is now complete and revenue growth of 10-15% is expected in FY23 and 20-25% in FY24 (revenue of Rs 4bn at the time of acquisition). Sanghavi Forgings' revenue is also expected to double from ~Rs 500mn at acquisition.

Exhibit 1: Q2FY23 Result Overview (Rs m) – Standalone

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Net Revenues	18,639	16,066	16.0	17,594	5.9	36,233	29,784	21.7
Raw Materials	8,281	6,384	29.7	7,272	13.9	15,554	11,595	34.1
<i>% of Net Sales</i>	<i>44.4</i>	<i>39.7</i>		<i>41.3</i>		<i>42.9</i>	<i>38.9</i>	
Personnel	1,351	1,275	6.0	1,357	(0.4)	2,708	2,491	8.7
<i>% of Net Sales</i>	<i>7.2</i>	<i>7.9</i>		<i>7.7</i>		<i>7.5</i>	<i>8.4</i>	
Manufacturing & Other Exp	4,477	3,554	26.0	4,614	(3.0)	9,091	6,931	31.2
<i>% of Net Sales</i>	<i>24.0</i>	<i>22.1</i>		<i>26.2</i>		<i>25.1</i>	<i>23.3</i>	
Total Expenditure	14,109	11,213	25.8	13,243	6.5	27,352	21,017	30.1
EBITDA	4,530	4,853	(6.7)	4,351	4.1	8,881	8,767	1.3
<i>EBITDA Margin (%)</i>	<i>24.3</i>	<i>30.2</i>		<i>24.7</i>		<i>24.5</i>	<i>29.4</i>	
Depreciation	1,066	1,026	3.9	1,064	0.1	2,130	2,045	4.2
EBIT	3,465	3,828	(9.5)	3,286	5.4	6,751	6,722	0.4
Interest Expenses	357	142	152.2	263	35.7	621	547	13.4
Non-operating income	477	322	48.1	259	84.0	737	655	12.4
Extraordinary Expenses	6	-	NA	30	(80.2)	37	616	(94.1)
PBT	3,579	4,008	(10.7)	3,252	10.0	6,830	6,214	9.9
Tax-Total	897	891	0.7	815	10.1	1,713	1,429	19.8
<i>Tax Rate (%) - Total</i>	<i>25.1</i>	<i>22.2</i>		<i>25.1</i>		<i>25.1</i>	<i>23.0</i>	
Reported PAT	2,681	3,118	(14.0)	2,437	10.0	5,118	4,784	7.0
Adj. PAT	2,686	3,118	(13.9)	2,459	9.2	5,145	5,259	(2.2)
<i>PAT Margin (%)</i>	<i>14.4</i>	<i>19.4</i>		<i>14.0</i>		<i>14.2</i>	<i>17.7</i>	

Source: Company, PL

Exhibit 2: Operating Metrics

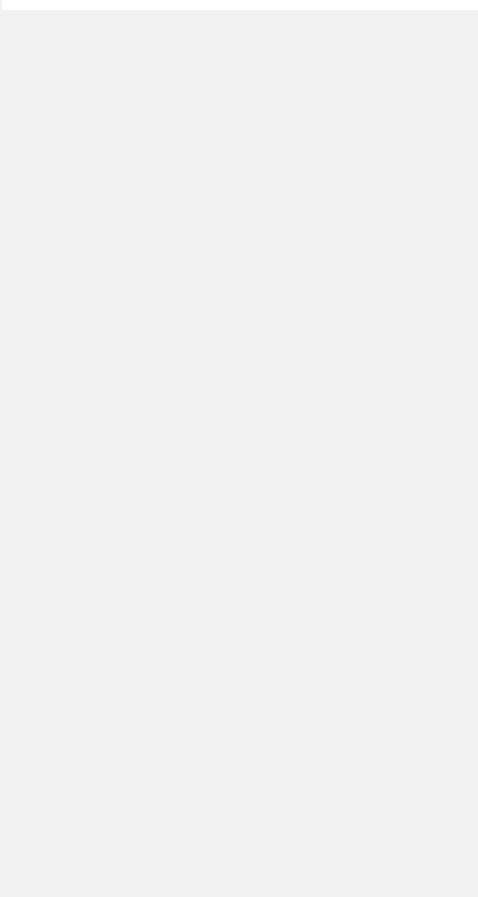
Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Volume (MT)	61,149	57,094	7.1	57,915	5.6	1,19,064	1,10,606	7.6
Realisation / ton (Rs)	3,04,819	2,81,394	8.3	3,03,788	0.3	3,04,318	2,69,283	13.0
RM cost / ton (Rs)	1,35,431	1,11,810	21.1	1,25,566	7.9	1,30,633	1,04,828	24.6
Gross Profit / ton (Rs)	1,69,388	1,69,583	(0.1)	1,78,222	(5.0)	1,73,685	1,64,455	5.6
Staff Cost / ton (Rs)	22,098	22,331	(1.0)	23,423	(5.7)	22,743	22,524	1.0
Other Mfg cost / ton (Rs)	73,207	62,248	17.6	79,675	(8.1)	76,353	62,667	21.8
EBITDA / ton (Rs)	74,083	85,005	(12.8)	75,124	(1.4)	74,589	79,264	(5.9)
Adj. Profit / ton (Rs)	43,920	54,604	(19.6)	42,466	3.4	43,213	47,548	(9.1)

Source: Company, PL

Exhibit 3: Geographical and segment revenue mix (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Domestic								
CV India	2,428	1,659	46.4	2,338	3.8	4,766	2,930	62.7
PV India	993	799	24.3	774	28.3	1,767	1,391	27.0
Industrial India	3,396	2,989	13.6	2,925	16.1	6,321	4,825	31.0
Others	1,159	1,081	7.2	1,082	7.1	2,241	1,944	15.3
Total domestic revenue	7,976	6,528	22.2	7,119	12.0	15,095	11,090	36.1
Exports								
CV Export	4,630	4,780	(3.1)	4,576	1.2	9,206	9,318	(1.2)
PV Export	2,423	1,073	125.8	1,942	24.8	4,365	2,672	63.4
Industrial Export	3,611	3,684	(2.0)	3,957	(8.7)	7,568	6,703	12.9
Total exports revenue	10,664	9,537	11.8	10,475	1.8	21,139	18,693	13.1
As % of overall sales								
Domestic								
CV India	30.4	25.4		32.8		31.6	26.4	
PV India	12.4	12.2		10.9		11.7	12.5	
Industrial India	42.6	45.8		41.1		41.9	43.5	
Others	14.5	16.6		15.2		14.8	17.5	
Total domestic revenue	100.0	100.0		100.0		100.0	100.0	
Exports								
CV Export	43.4	50.1		43.7		43.5	49.8	
PV Export	22.7	11.3		18.5		20.6	14.3	
Industrial Export	33.9	38.6		37.8		35.8	35.9	
Total exports revenue	100.0	100.0		100.0		100.0	100.0	

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	62,546	73,349	88,210	1,01,160
YoY gr. (%)	71.3	17.3	20.3	14.7
Cost of Goods Sold	25,526	31,173	36,431	41,273
Gross Profit	37,020	42,176	51,779	59,887
Margin (%)	59.2	57.5	58.7	59.2
Employee Cost	5,058	5,501	6,351	6,980
Other Expenses	14,805	17,971	21,876	24,885
EBITDA	17,157	18,704	23,552	28,021
YoY gr. (%)	135.8	9.0	25.9	19.0
Margin (%)	27.4	25.5	26.7	27.7
Depreciation and Amortization	4,118	4,385	5,098	5,192
EBIT	13,039	14,319	18,454	22,829
Margin (%)	20.8	19.5	20.9	22.6
Net Interest	1,073	1,583	1,788	1,830
Other Income	1,675	1,706	1,744	2,183
Profit Before Tax	13,959	14,406	18,410	23,182
Margin (%)	22.3	19.6	20.9	22.9
Total Tax	3,181	3,601	4,418	5,564
Effective tax rate (%)	22.8	25.0	24.0	24.0
Profit after tax	10,778	10,804	13,992	17,618
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,532	10,777	13,992	17,618
YoY gr. (%)	-	-	-	-
Margin (%)	16.8	14.7	15.9	17.4
Extra Ord. Income / (Exp)	246	(27)	-	-
Reported PAT	10,778	10,804	13,992	17,618
YoY gr. (%)	245.3	0.2	29.5	25.9
Margin (%)	17.2	14.7	15.9	17.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	466	466	466	466
EPS (Rs)	22.6	23.1	30.0	37.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	54,962	61,962	70,462	78,962
Tangibles	54,962	61,962	70,462	78,962
Intangibles	-	-	-	-
Acc: Dep / Amortization	21,950	26,335	31,433	36,626
Tangibles	21,950	26,335	31,433	36,626
Intangibles	-	-	-	-
Net fixed assets	33,011	35,627	39,028	42,336
Tangibles	33,011	35,627	39,028	42,336
Intangibles	-	-	-	-
Capital Work In Progress	2,480	2,433	2,210	2,009
Goodwill	-	-	-	-
Non-Current Investments	20,003	20,289	20,589	20,903
Net Deferred tax assets	(2,888)	(343)	(343)	(343)
Other Non-Current Assets	8,285	9,114	10,025	11,027
Current Assets				
Investments	18,995	19,375	19,762	20,158
Inventories	11,111	11,053	13,292	15,243
Trade receivables	24,924	28,134	33,834	38,801
Cash & Bank Balance	3,828	3,290	4,089	9,231
Other Current Assets	5,468	6,015	6,616	7,278
Total Assets	1,28,409	1,35,661	1,49,811	1,67,390
Equity				
Equity Share Capital	931	931	931	931
Other Equity	70,166	78,410	89,142	1,03,501
Total Networkth	71,098	79,341	90,073	1,04,432
Non-Current Liabilities				
Long Term borrowings	15,159	15,462	15,926	16,404
Provisions	466	512	564	620
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	26,082	26,603	27,136	27,678
Trade payables	9,670	10,048	12,084	13,858
Other current liabilities	2,799	3,079	3,387	3,726
Total Equity & Liabilities	1,28,409	1,35,661	1,49,811	1,67,390

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	13,959	14,406	18,410	23,182
Add. Depreciation	4,118	4,385	5,098	5,192
Add. Interest	1,073	1,583	1,788	1,830
Less Financial Other Income	1,675	1,706	1,744	2,183
Add. Other	(1,993)	(1,669)	(1,744)	(2,183)
Op. profit before WC changes	17,157	18,704	23,552	28,021
Net Changes-WC	(14,077)	(3,072)	(6,230)	(5,504)
Direct tax	(2,639)	(6,146)	(4,418)	(5,564)
Net cash from Op. activities	441	9,486	12,903	16,953
Capital expenditures	(2,320)	(6,953)	(8,277)	(8,299)
Interest / Dividend Income	-	-	-	-
Others	(4,648)	627	612	952
Net Cash from Inv. activities	(6,967)	(6,326)	(7,665)	(7,347)
Issue of share cap. / premium	2,231	-	-	-
Debt changes	6,053	825	996	1,020
Dividend paid	(1,397)	(2,561)	(3,260)	(3,260)
Interest paid	(1,073)	(1,583)	(1,788)	(1,830)
Others	-	-	-	-
Net cash from Fin. activities	5,814	(3,319)	(4,051)	(4,069)
Net change in cash	(713)	(159)	1,187	5,537
Free Cash Flow	(1,879)	2,534	4,626	8,654

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	16,021	16,741	17,594	18,639
YoY gr. (%)	54.7	28.1	28.2	16.0
Raw Material Expenses	6,681	7,250	7,272	8,281
Gross Profit	9,340	9,491	10,322	10,358
Margin (%)	58.3	56.7	58.7	55.6
EBITDA	4,079	4,312	4,351	4,530
YoY gr. (%)	89.9	20.1	11.2	(6.7)
Margin (%)	25.5	25.8	24.7	24.3
Depreciation / Depletion	1,031	1,042	1,064	1,066
EBIT	3,047	3,270	3,286	3,465
Margin (%)	19.0	19.5	18.7	18.6
Net Interest	118	407	263	357
Other Income	358	662	259	477
Profit before Tax	4,247	3,499	3,252	3,579
Margin (%)	26.5	20.9	18.5	19.2
Total Tax	873	879	815	897
Effective tax rate (%)	20.5	25.1	25.1	25.1
Profit after Tax	3,374	2,620	2,437	2,681
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,612	2,638	2,459	2,686
YoY gr. (%)	169.7	28.0	15.3	(13.9)
Margin (%)	16.3	15.8	14.0	14.4
Extra Ord. Income / (Exp)	762	(19)	(23)	(5)
Reported PAT	3,374	2,620	2,437	2,681
YoY gr. (%)	264.1	27.5	46.2	(14.0)
Margin (%)	21.1	15.6	13.8	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	22.6	23.1	30.0	37.8
CEPS	31.5	32.6	41.0	49.0
BVPS	152.7	170.4	193.4	224.3
FCF	(4.0)	5.4	9.9	18.6
DPS	3.0	5.5	7.0	7.0
Return Ratio(%)				
RoCE	12.6	12.3	14.5	16.2
ROIC	12.5	11.4	13.6	15.6
RoE	16.1	14.3	16.5	18.1
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.2	0.1
Net Working Capital (Days)	139	131	133	133
Valuation(x)				
PER	38.0	37.1	28.6	22.7
P/B	5.6	5.0	4.4	3.8
P/CEPS	27.3	26.4	21.0	17.5
EV/EBITDA	24.4	22.4	17.8	14.8
EV/Sales	6.7	5.7	4.8	4.1
Dividend Yield (%)	0.3	0.6	0.8	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Shipment tonnage (MT)	2,21,514	2,43,665	2,80,215	3,22,247
Net realisation (Rs/ton)	2,82,357	3,01,025	3,14,793	3,13,922

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	875	707
2	11-Aug-22	BUY	900	736
3	08-Jul-22	BUY	900	664
4	16-May-22	BUY	900	663
5	11-Apr-22	BUY	942	740
6	11-Feb-22	BUY	980	728
7	12-Jan-22	BUY	1,110	702
8	15-Nov-21	BUY	997	775

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	148
2	Bajaj Auto	Hold	3,865	3,571
3	Bharat Forge	BUY	875	707
4	CEAT	Accumulate	1,775	1,617
5	Eicher Motors	BUY	4,190	3,701
6	Endurance Technologies	BUY	1,600	1,394
7	Exide Industries	UR	-	157
8	Hero Motocorp	BUY	3,175	2,598
9	InterGlobe Aviation	Accumulate	2,015	1,798
10	Mahindra & Mahindra	BUY	1,500	1,287
11	Maruti Suzuki	BUY	10,230	9,493
12	Tata Motors	BUY	520	433
13	TVS Motors	BUY	1,275	1,114

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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