

# Bharat Forge

## Multiple growth drivers ahead

Bharat Forge (BHFC) Q3 consolidated earnings missed estimates, largely led by a higher interest burden even as operational numbers (including standalone performance) were in line. Overall, management believes FY24 is expected to be a turnaround year for BHFC, given: 1) the sharp uptick expected in the defense segment from here on, led by its new order wins in exports (worth INR 20bn) and the much-awaited order win for ATAGs in coming quarters; 2) huge outsourcing opportunities to BHFC in the renewables segment on the back of its recent acquisitions of Sanghvi Forgings (targeting 2x revenues in current fiscal) and JS Auto (new order wins worth INR2.5 bn); 3) turnaround expected in its overseas subsidiaries on the back of ramp-up of new AI forgings lines in US and Europe, for whom, capacities are fully booked with confirmed orders; 4) tremendous growth opportunities envisaged in the aerospace segment. This is apart from the strong demand momentum it is witnessing in auto segments, from both domestic and export markets. However, given the weaker-than-expected Q3, we lower our FY23 estimates by 16%, while maintaining our FY24-25 earnings, given the healthy outlook across key segments highlighted above. Reiterate BUY with an unchanged TP of INR 928.

- Q3 performance miss estimates:** BHFC standalone adjusted earnings, at INR2.8bn, were in line with our estimates. The standalone EBITDA margin also came in line with our estimate at 25%. Even consolidated EBITDA at INR 4.7bn was in line with our estimates. However, earnings miss was largely led by a higher interest burden in the quarter. The loss of associates of INR302mn is on account of the write-off of its investments in its JV with Refu.
- Call takeaways:** (1) Overseas subsidiary posted an EBITDA loss of Rs626mn in Q3 primarily on account of the sub-optimal ramp-up of the new forgings facilities (average capacity utilisation at 25%) in the US and Europe. However, these new plants are fully booked with secure orders and once capacity ramp-ups, management targets to clock high-teens margins from these facilities. (2) At JS Auto Cast, they have witnessed strong 20% revenue growth and 52% growth in EBITDA. New order wins since the acquisition stand at INR2.5bn. Management expects to grow this entity by 30-35% in FY24. Even at Sanghvi Forgings, they are targeting to double revenues in the current fiscal and see huge growth opportunities ahead. (3) Domestic MHCV production is likely to remain upbeat at 100k units for Q4, up from 91.5k units in Q3. (4) In US Class 8, management has indicated that most of the production slots for 2023 are full and they expect demand momentum to remain strong next year as well. (5) At the ongoing Aeroshow in Bangalore, the company is seeing tremendous interest from large US companies to tie up with strong supply partners like BHFC for setting up facilities in India. BHFC is likely to be a big beneficiary in this space, given that it is the only domestic player with the requisite certification that has the capabilities to forge aerospace components.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY22	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	33,534	23,947	40.0	30,764	9.0	1,04,611	1,28,684	1,48,436	1,69,321
EBITDA	4,693	5,018	-6.5	4,320	8.6	19,803	19,008	27,576	33,671
APAT	1,477	3,092	-52.2	1,474	0.3	9,875	7,957	15,031	19,535
Diluted EPS (INR)	3.2	6.6	-52.2	3.2	0.3	21.2	17.1	32.3	42.0
P/E (x)						40.2	49.9	26.4	20.3
EV / EBITDA (x)						41.3	43.3	29.7	24.1
RoCE (%)						11.1	9.2	14.9	17.7

Source: Company, HSIE Research

## BUY

CMP (as on 14 Feb 2023)	INR 874
Target Price	INR 928
NIFTY	17,930

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 867	INR 928
EPS %	FY23E	FY24E
	-15%	0%

### KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / (\$ mn)	407/4,912
6m avg traded value (INR mn)	1,171
52 Week high / low	INR 920/595

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.7	10.5	24.8
Relative (%)	2.6	7.9	16.6

### SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	45.25	45.25
FIs & Local MFs	24.73	26.09
FPIs	19.30	17.88
Public & Others	10.72	10.78
Pledged Shares	3.22	3.22

Source : BSE

Pledged shares as % of total shares

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**Disclosure:**

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