

February 14, 2023

RESULT REPORT Q3 FY23 | Sector: Automobile

# Bharat Forge Ltd

## Weak overseas results dent overall earnings

### Valuation and View

Bharat Forge (BHFC) 3QFY23 results were in-line at revenues/Adj.PAT while EBITDA exceeded our estimates by 10.7% at Rs5.4b (est Rs4.8b, +32.7%/18% YoY/QoQ). Lower utilization in overseas business (Aluminum forgings) in Germany and North America led to EBITDA loss of Rs620m (v/s loss of Rs341m in 2QFY23). BHFC has reported ~2.6% QoQ/17.6% YoY growth in tonnage at ~62.75k tons, which were at 16 quarter high indicating strong momentum across business verticals. Key positives going forward will be 1) continues ramp-up in recent acquisitions such as JS Auto cast (guided revenue growth >25% and double-digit margins over 2-3 years), 2) ramp up in defense revenues led by exports. The management has hinted towards sustenance of healthy demand momentum across segments going forward led by industrial and PV (auto) while Europe (CV) to remain stable.

New orders win for 9MFY23 have been healthy across auto, industrial, defense (new defense component order post Rs6b in 3QFY23 taking segment orderbook to Rs20b at KSSL) and JSA Auto (Rs1.5b). With diverse presence, BHFC is better placed than its previous cycles to benefit from i) steady orders and ramp up in domestic/exports PVs and CVs and ii) healthy outlook for industrials (with strong wins in segments like Aerospace, defense, mining, agriculture). We raise FY24/25 EPS by 5-5.5% to factor in for new order wins and other income. We reiterate BUY rating on the stock with revised TP of Rs1,028 (v/s Rs974 earlier) based on ~26x to Mar'25 consol EPS (unchanged). Reiterate BUY as one of our top picks among ancs.

### Result Highlights –Revenue/ Adj. PAT in-line, EBIDTA 10% above est

- Revenues grew at Rs19.5b (5% QoQ, 22% YoY, in-line) as tonnage grew (2.6% QoQ, 18% YoY, in-line) at 62.7k tons while ASP grew (2.1% QoQ, 4% YoY, in-line) at Rs311.1k/ton
- Gross margins expanded at 55.9% (+30bp QoQ, +240bp YoY, in-line)
- This resulted EBITDA at Rs5.3b (+18.2% QoQ, 33% YoY, est Rs4.8b). Consequently, EBITDA margins came in at 27.4% (+310bp QoQ, +220bp YoY, est 25.2%).
- Strong op performance offset by higher interest cost at Rs849m (est Rs310m) resulted Adj.PAT at Rs2.9b (+6.5% QoQ, +9.5% YoY, in-line).
- 9MFY23 performance- Revenue/EBITDA/Adj. PAT grew 22%/16%/2%

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	19,521	19,202	25,534	1.7	-23.5	Revenue/ Adj. PAT in- line, EBIDTA 10% above est
EBITDA	5,351	4,832	4,933	10.7	8.5	
EBITDA margins %	27.4	25.2	19.3	220bp	810bp	
Adjusted PAT	2,860	2,905	2,469	-1.5	15.8	

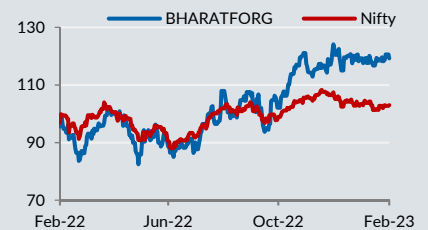
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 873
Target Price	: Rs 1,028
Potential Return	: +18%

### Stock data (as on Feb 14, 2023)

Nifty	17,929
52 Week h/l (Rs)	919 / 595
Market cap (Rs/USD mn)	414,397 / 5022
Outstanding Shares (mn)	466
6m Avg t/o (Rs mn):	1,118
Div yield (%):	0.8
Bloomberg code:	BHFC IN
NSE code:	BHARATFORG

### Stock performance



	1M	3M	1Y
Absolute return	0.0%	1.7%	24.8%

### Shareholding pattern (As of Dec'22 end)

Promoter	45.3%
FII+DII	43.2%
Others	10.6%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,028	974

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	33.0	39.5
EPS (Old)	31.4	37.5
% change	5.2	5.5

### Financial Summary- Consolidated

Y/E Mar (Rs b)	2023E	2024E	2025E
Sales	110.4	124.8	141.5
EBITDA	22.1	27.1	31.5
Adj. PAT	10.4	15.4	18.4
EPS (INR)	22.4	33.0	39.5
EPS Gr. (%)	3.5	47.1	19.8
BV/Sh. (INR)	159.5	188.6	224.1
RoE (%)	14.9	19.0	19.2
RoCE (%)	9.4	11.6	12.7
Payout (%)	17.9	12.2	10.1
P/E (x)	38.9	26.5	22.1
P/BV (x)	5.5	4.6	3.9
EV/EBITDA (x)	20.7	16.8	14.3
EV/Sales (x)	4.2	3.6	3.2

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## Exhibit 2: Quarterly snapshot - Standalone

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY chg	Q2FY23	9MFY23	1HFY22	YoY chg
Net Revenues	19,521	16,021	21.8	18,639	55,754	45,805	21.7
Raw Materials	8,602	6,681	28.7	8,281	24,155	18,276	32.2
% of Net Sales	44.1%	41.7%		44.4%	43.3%	39.9%	
Personnel	1,365	1,284	6.3	1,351	4,073	3,775	7.9
% of Net Sales	7.0%	8.0%		7.2%	7.3%	8.2%	
Manufacturing & Other Exp	4,204	4,022	4.5	4,481	13,049	11,263	15.9
% of Net Sales	21.5%	25.1%		24.0%	23.4%	24.6%	
Total Expenditure	14,170	11,987	18.2	14,113	41,277	33,315	23.9
EBITDA	5,351	4,034	32.7	4,526	14,477	12,491	15.9
EBITDA Margin (%)	27.4%	25.2%		24.3%	26.0%	27.3%	
Depreciation	1,079	1,031	4.6	1,066	3,209	3,076	4.3
EBIT	4,272	3,003	42.3	3,460	11,268	9,415	19.7
Interest Expenses	849	118	618.1	357	1,469	666	120.8
Non-operating income	377	358	5.4	477	1,114	1,013	9.9
Extraordinary Exp (inc) / Forex loss (gain)	43	1,004		(2)	(239)	698	
PBT	3,844	4,247	(9.5)	3,578	10,674	10,460	2.0
Tax-Total	952	873	9.1	897	2,664	2,302	15.7
Tax Rate (%) - Total	24.8%	20.5%		25.1%	25.0%	22.0%	
Reported PAT	2,892	3,374	(14.3)	2,681	8,009	8,158	(1.8)
Adj. PAT	2,860	2,612	9.5	2,686	8,005	7,862	1.8
PAT Margin	14.6%	16.3%		14.4%	14.4%	17.2%	
<b>Key Operating Metrics</b>							
Volume (MT)	62,755	53,365	17.6	61,149	181,819	163,971	10.9
Realisation / ton (Rs)	311,067	300,215	3.6	304,818	306,647	279,350	9.8
Gross Profit / ton (Rs)	174,002	175,013	(0.6)	169,387	173,794	167,891	3.5
Staff Cost / ton (Rs)	21,750	24,060	(9.6)	22,098	22,400	23,024	(2.7)
Other Mfg cost / ton (Rs)	66,987	75,365	(11.1)	73,275	71,770	68,691	4.5
EBITDA / ton (Rs)	85,265	75,588	12.8	74,014	79,624	76,176	4.5
Adj. Profit / ton (Rs)	45,567	48,943	(6.9)	43,919	44,025	47,948	(8.2)

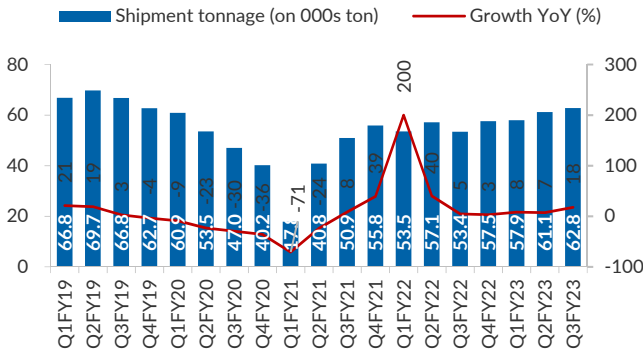
Source- Company, Yes Sec

## KEY CON-CALL HIGHLIGHTS

- **New order wins –**
  - **Indian operations secured new business worth ~Rs2.65b** (v/s Rs8.5b) across automotive & industrial applications and 9MFY23 Rs15b.
  - **JSA** - secured new orders worth Rs1.53b. To further grow its presence in the castings space, JSA has signed a BTA with Inda Shell Mould by Mar'23 end. Total OB at Rs2.5b post acquisition. Total liquid capacity at 120k tons and castings capacity at 75k tons.
  - **Expect JSA revenues at 30-35% better in FY24 v/s Rs4-4.2b run rate at time of acquisition.**
  - JSA margins declined to 11% (v/s 16%) led by inflation and delay in high margin purchase from Russian customers.
- PBT was impacted led by exchange MTM Rs350m and finance cost.
- **PV revenue continue to grow and now at 20% of sales v/s mid-single digit contribution 3-4 years ago.**
- **Defense total OB of ~Rs20b (entire exports) of which Rs6b came only in 3QFY23...**almost entire order is for exports for artillery guns, mounted guns and spares/consumables. 50% is for capital and 50% for consumables. Expect revenues to kick in from 2Q and entire Rs20b in 2 years.
  - **Expect to get guns orders soon from the domestic market.**
- **Overseas subs performance** - EBITDA loss of Rs620m...led by low-capacity utilization in Germany and NA. Total capacity at 7.5m tons per annum which is operating at ~50% (old plant at 70% and new at 30%). Expect performance to improve in 4Q and to be better in FY24.
  - Yet to get compensation of cost such as energy, freight and manpower.
  - Margins to be in high teens (16-18% range) when will operate at 70% capacity.
  - Steel business is not under losses but margins are lower than desired level while current quarters was all led by Aluminum business. Alu business will see QoQ improvement over 4Q and 1Q and will be PAT positive FY24. Europe has 1.4 and US has lost 1.6m due to supply shortages in FY23.
- **India CV - 4QFY23 projection for CV is ~100k units and not seeing any production adjustment ahead of RDE.**
- **Aerospace** – currently supplying to 3 verticals such as Aero structure (complex forging), landing gears and engine components. Only co in India certified by NCAP. BHFC is part of supply chain of US cos which are setting up in India.
- RM - Not seeing major correction in RM as of yet but decline will be margin accretive ahead.
- **Not seeing any decline in US class 8 trucks at this time and expect the same to continue in FY24. Production is booked till Nov'23.**
- USD INR realizations at Rs82.5 for 3QFY23 v/s Rs81 in 2QFY23.
- Interest Cost increase was due to Rs0.3b MTM Loss and increase in interest rate by 200-250bp, will normalize next year to Rs0.5-0.55b.
- **Consol Long term Debt at Rs24.9b in Dec'22 (v/s 23.15b in Mar'22).**

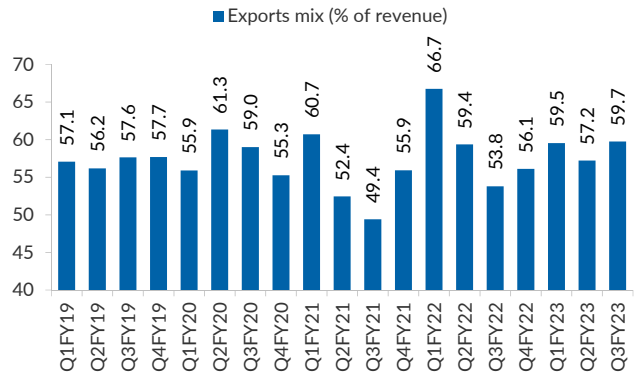
## CHARTS

**Exhibit 1: 3QFY23 tonnage grew ~3% QoQ**



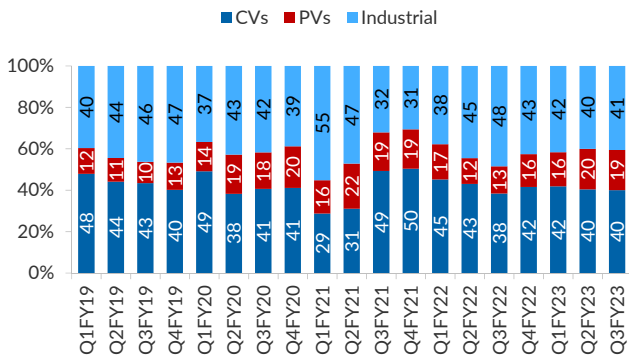
Source: Company, YES Sec

**Exhibit 2: Exports mix grew by 250bp QoQ at 59.7%**



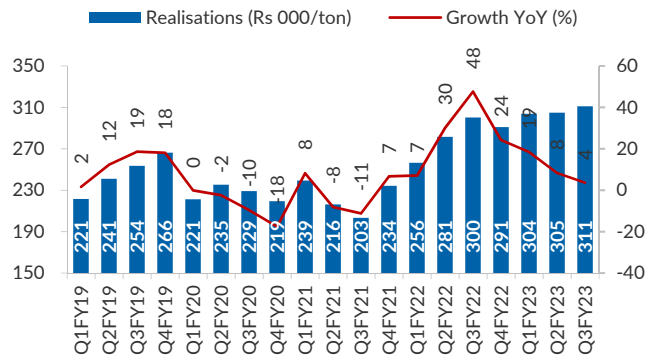
Source: Company, YES Sec

**Exhibit 3: Industrial mix improved to - 41%**



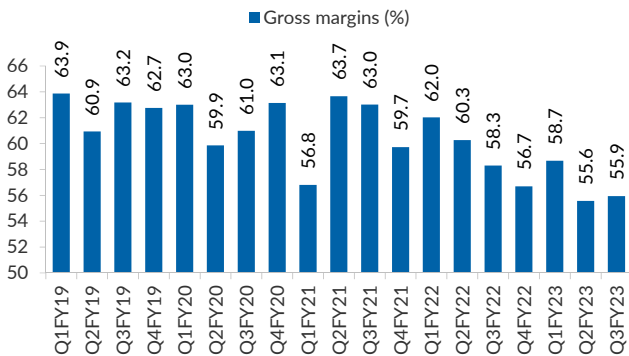
Source: Company, YES Sec

**Exhibit 4: S/A ASPs grew 2% QoQ at Rs311k**



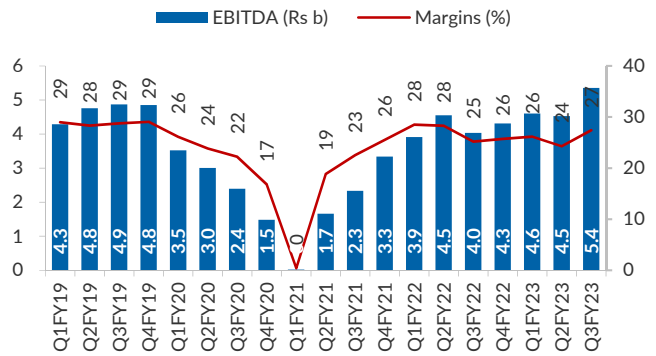
Source: Company, YES Sec

**Exhibit 5: GM expanded by 30bps QoQ at 55.9%**



Source: Company, YES Sec

**Exhibit 6: Margin expanded by 310bp QoQ at 27.3%**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 7: Balance Sheet- Consolidated**

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	931	931	931	931	931	931
Total Reserves	51,266	53,220	64,775	73,360	86,865	103,410
Net Worth	52,197	54,151	65,707	74,291	87,796	104,341
Minority Interest	320	317	561	617	679	746
Deferred Liabilities	507	1,445	1,718	1,718	1,718	1,718
Total Loans	40,735	52,711	59,716	57,716	55,716	53,716
Capital Employed	93,759	108,624	127,702	134,342	145,909	160,522
Gross Block	64,017	76,753	81,923	96,671	98,171	104,671
Less: Accum. Deprn.	24,000	29,256	33,226	40,855	48,446	56,591
Net Fixed Assets	40,017	47,497	48,697	55,816	49,725	48,080
Capital WIP	11,427	9,001	11,248	1,000	4,000	4,000
Total Investments	16,182	26,070	26,040	28,040	30,040	32,040
Curr. Assets, Loans&Adv.	47,197	48,309	68,933	76,116	92,250	110,528
Inventory	17,347	17,939	27,105	28,606	32,340	38,763
Account Receivables	14,938	14,197	21,736	22,940	29,067	34,887
Cash and Bank Balance	5,751	4,729	6,030	5,817	7,930	10,907
Loans and Advances	9,161	11,444	14,062	18,754	22,912	25,971
Curr. Liability & Prov.	21,064	22,254	27,216	26,630	30,107	34,127
Creditors	10,309	12,068	16,314	15,124	17,098	19,382
Other Current Liabilities	8,049	7,180	8,226	8,681	9,815	11,125
Provisions	2,706	3,006	2,677	2,825	3,194	3,620
Net Current Assets	26,133	26,056	41,717	49,486	62,143	76,401
Appl. of Funds	93,759	108,624	127,702	134,342	145,909	160,522

Source: Company, YES Sec

## Exhibit 8: Income statement- Consolidated

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	80,558	63,363	104,611	110,404	124,818	141,485
Change (%)	(20.6)	(21.3)	65.1	5.5	13.1	13.4
EBITDA	11,147	8,617	20,159	22,128	27,061	31,482
Margin (%)	13.8	13.6	19.3	20.0	21.7	22.3
Depreciation	5,477	6,122	7,303	7,629	7,591	8,145
EBIT	5,670	2,496	12,856	14,499	19,470	23,337
Int. and Finance Charges	1,713	1,077	1,604	2,235	958	966
Other Income - Rec.	1,879	1,689	1,959	1,603	1,915	2,110
PBT bef. EO Exp.	5,835	3,107	13,211	13,867	20,428	24,481
EO Expense/(Income)	789	3,062	(924)	-	-	-
PBT after EO Exp.	5,046	45	14,135	13,867	20,428	24,481
Current Tax	1,125	1,015	3,035	3,467	5,107	6,120
Tax Rate (%)	22	2,246	21	25	25	25
Reported PAT	3,921	(970)	11,101	10,400	15,321	18,360
PAT Adj for EO items	4,535	2,415	10,375	10,400	15,321	18,360
Change (%)	(56.6)	(46.7)	329.6	0.2	47.3	19.8
Margin (%)	5.6	3.8	9.9	9.4	12.3	13.0
Less: Minority Interest	420	297	283	(47)	(47)	(47)
Net Profit	4,114	2,118	10,092	10,447	15,368	18,407

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement- Consolidated

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating PBT	5,046	45	14,135	14,499	19,470	23,337
Depreciation	5,477	6,122	7,303	7,629	7,591	8,145
Other income	3,209	4,193	(1,510)	1,706	2,024	2,224
Direct Taxes Paid	(2,331)	(934)	(3,525)	(3,467)	(5,107)	(6,120)
(Inc)/Dec in WC	4,607	3,837	(12,269)	(7,982)	(10,544)	(11,281)
CF from Operations	16,009	13,262	4,134	12,384	13,434	16,305
CF from Operating incl EO	15,220	10,200	5,058	12,384	13,434	16,305
(inc)/dec in FA	(9,571)	(8,905)	(9,646)	(4,500)	(4,500)	(6,500)
Free Cash Flow	5,648	1,295	(4,588)	7,884	8,934	9,805
(Pur)/Sale of Investments	(1,751)	(6,205)	2,746	(2,000)	(2,000)	(2,000)
CF from Investments	(11,322)	(15,111)	(6,901)	(6,500)	(6,500)	(8,500)
Inc/(Dec) in Debt	1,169	6,543	6,517	(2,000)	(2,000)	(2,000)
Interest Paid	(1,678)	(760)	(1,444)	(2,235)	(958)	(966)
Dividend Paid	(3,335)	-	(1,642)	(1,863)	(1,863)	(1,863)
CF from Fin. Activity	(3,814)	5,783	3,102	(6,098)	(4,820)	(4,829)
Inc/Dec of Cash	83	873	1,260	(213)	2,114	2,977

Source- Company, Yes Sec

## Exhibit 10: Growth and Ratio matrix- Consolidated

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR) *</b>						
EPS	8.8	4.5	21.7	22.4	33.0	39.5
Cash EPS	21.5	18.3	38.0	38.7	49.2	56.9
BV/Share	112.1	116.3	141.1	159.5	188.6	224.1
DPS	2.0	2.0	5.5	4.0	4.0	4.0
Payout (%)	28.5	(96.0)	23.1	17.9	12.2	10.1
<b>Valuation (x) *</b>						
P/E	98.8	191.9	40.3	38.9	26.5	22.1
P/BV	7.8	7.5	6.2	5.5	4.6	3.9
EV/Sales	5.5	7.2	4.4	4.2	3.6	3.2
EV/EBITDA	39.6	52.7	22.8	20.7	16.8	14.3
Dividend Yield (%)	0.2	0.2	0.6	0.5	0.5	0.5
<b>Return Ratios (%)</b>						
RoE	7.8	4.0	16.8	14.9	19.0	19.2
RoCE	6.4	3.3	10.0	9.4	11.6	12.7
RoIC	7.0	3.0	13.2	11.8	14.4	16.1
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	1.3	0.8	1.3	1.1	1.3	1.4
Inventory (Days)	78.6	103.3	94.6	94.6	94.6	100.0
Debtor (Days)	67.7	81.8	75.8	75.8	85.0	90.0
Creditor (Days)	46.7	69.5	56.9	50.0	50.0	50.0
Working Capital Turnover (Days)	92.3	122.9	124.5	144.4	158.5	169.0
<b>Leverage Ratio (x)</b>						
Debt/Equity	0.8	1.0	0.9	0.8	0.6	0.5

Source- Company, Yes Sec

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**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Deep Shah, Nisarg Shah

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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