

# Bharat Forge

## Multiple growth drivers in place

Bharat Forge's (BHFC) Q4 consolidated earnings missed estimates due to a sharp increase in a loss at India subs and a higher interest burden. Going forward, management believes FY24 will be a turnaround year for BHFC, given: (1) the sharp uptick expected in the defence segment from here on, led by its new order wins in exports (worth INR 20bn) and from domestic—it has received an order for 307 ATAGs, for which RFQs would be floated soon. Management expects this business to ramp up to USD 100mn in FY24 (from INR 3.2bn), with strong margins and returns; (2) strong visibility in aerospace where it expects to grow 30-40% even in FY24, after doubling in FY23 and a near term target to reach INR 5-6bn in revenue (from INR 1.7bn now); (3) huge ramp-up potential at JS-Auto Cast, given its capacity is expected to increase by 2x and there is huge demand for AL castings, both in India and abroad. This is apart from the strong demand momentum it is witnessing in auto segments, from both domestic and export markets. Also, the company expects to improve the performance of overseas subs from here on in each quarter as it ramps up the Al forgings facilities in US and Europe. Reiterate BUY with a revised TP of INR 998 (from earlier INR 928) as we roll forward to FY25 EPS.

- Q4 performance miss estimates:** BHFC standalone adj PAT, at INR3bn, was slightly lower than our estimate of INR 3.1bn due to a higher interest burden and lower other income. However, consolidated margins declined 200bps QoQ to 12%, largely due to a sharp increase in losses at India subs. This coupled with a higher interest burden led to a miss in consolidated PAT, which came in at INR 1.8bn, lower than our estimate of INR 2.2bn.
- Call takeaways:** (1) **Outlook:** (a) **Domestic CVs:** Industry is likely to grow in single digits; (b) **US Class8:** demand seems to be holding up in US and management does not expect the segment to decline in CY23; (c) **non-auto exports:** while oil and gas segment demand is likely to remain stable in FY24, management is seeing very strong traction in renewables and construction equipment segments. (2) **Key growth drivers for FY24:** (a) **Defense:** apart from the 3-year exports order that it would execute worth Rs20bn, the company has indicated that it has now received an order for 307 ATAGs from the army for which RFQs are likely soon. Management expects this business to ramp up to USD 100mn in FY24, with strong margins and returns; (b) **Aerospace:** Management expects it to grow 30-40% in FY24 with a target to reach INR5-6bn pa levels in a few years from INR1.7bn in FY23. (3) **JS Auto Cast update:** On the back of its recent acquisition and its own Capex plan, this entity is likely to see its capacity rise by over 2x to 120k+ MT pa from 49k MT pa currently. They expect this entity to see a significant ramp-up in the next 2-3 years, given the strong demand for Al castings, both in India and abroad. (4) **Overseas subsidiaries:** management has indicated that the overseas subsidiary margins would improve each quarter from here on.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	36,291	35,731	1.6	33,534	8.2	1,04,611	1,29,103	1,49,486	1,69,757
EBITDA	4,385	5,539	-20.8	4,693	-6.6	19,803	17,676	27,771	33,758
APAT	1,766	2,445	-27.8	1,477	19.5	9,875	5,680	14,288	18,598
Diluted EPS (INR)	3.8	5.3	-27.8	3.2	19.5	21.2	12.2	30.7	39.9
P/E (x)						35.8	62.2	24.7	19.0
EV / EBITDA (x)						36.9	41.8	26.2	21.4
RoCE (%)						11.1	7.9	14.2	16.8

Source: Company, HSIE Research

## BUY

CMP (on 5 May 2023)	INR 760
Target Price	INR 998
NIFTY	18,069

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 928	INR 998
EPS %	FY24E	FY25E
	-5%	-5%

### KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / (\$ mn)	354/4,328
6m avg traded value (INR mn)	1,026
52 Week high / low	INR 920/597

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.4)	(11.1)	12.3
Relative (%)	(12.7)	(11.2)	2.7

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	45.25	45.25
FIs & Local MFs	26.09	27.70
FPIs	17.88	16.17
Public & Others	10.78	10.88
Pledged Shares	3.22	3.22

Source : BSE

Pledged shares as % of total shares

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**Disclosure:**

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