

# Bharat Forge

## Q1 beat highlights recovery is on track

Bharat Forge's consolidated PAT at INR 2.2 bn is better than our estimate of INR 1.8bn, led by a performance beat at both standalone and overseas subsidiaries. Performance beat was largely driven by better-than-expected revenue growth at the standalone entity and break-even at the Europe subsidiary. We continue to highlight that BHFC has multiple growth levers to offset any potential slowdown from US Class8 which include: (1) defence orders that are likely to see this segment's revenue ramp-up to INR 17bn by FY25E, from INR 3.5bn in FY23, (2) strong growth expected in PV and industrial exports, (3) huge ramp-up potential at JS-Auto Cast, given its capacity is expected to increase by 2x and there is a huge demand for castings, both in India and abroad, (4) strong order backlog in aerospace, which would help boost revenue to INR 5bn over next the four years, from INR 1.7bn. Also, the sharp turnaround in overseas subsidiaries in Q1 gives us confidence that the management is on track to normalize subsidiary performance over the course of the year (target to achieve a high single-digit margin by Q4). Further, its long-term stable revenue growth guidance is a testimony to the fact that management has been able to transform BHFC from a cyclical entity to a stable revenue stream, given its well-diversified mix. Reiterate BUY with a revised TP of INR 1,069 (from INR 998 earlier) as we roll forward to June-25 estimates.

- Q1 performance beats estimates:** Standalone revenue grew 21% YoY to INR 21.2bn (vs the estimate of INR 19.6bn). Revenue beat was led by the ramp-up of the defence export order and continued strong ramp-up in PV exports. Thus, while margins came in line with estimates at 26%, PAT came in at INR 3.1bn—vs our estimate of INR 2.8bn. Further, the consolidated margin improved 330bps QoQ to 15.4% (vs our estimate of 13.8%) and was driven by break-even at the European subsidiary.
- Call takeaways:** (1) **Key highlights in Q1 include:** a) non-auto domestic up 72% YoY, led by the defence export order, with another INR2.8bn won in Q1; b) strong growth in PV exports (+43% YoY); c) 50%+ YoY growth in aerospace to INR650mn; d) overseas subs margins sharply improve to 1.2% from -4% QoQ. (2) The much-awaited domestic defence order's RFQ is out and management expects this to convert to firm order within 6 months. (3) On US Class8, based on customer feedback, they have good order visibility for the next 12 months and they expect the segment to remain flat even for CY24 (5) **JS Auto Cast** has now completed the acquisition of Indo Shell. This together with its own recent capacity expansion can potentially increase this business revenue 2.5x in coming years. (6) **Overseas subsidiaries:** management expects to end FY24 with a high single-digit exit margin and overall positive PBT on the back of 1) positive PBT in Europe and 2) EBITDA break-even in the US by Q4. (7) BHFC will invest INR 10bn in capex for FY24 and reduce debt by INR 10bn over the next couple of years, both via internal accruals.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	38,773	28,515	36.0	36,291	6.8	1,29,103	1,59,882	1,75,797	1,94,542
EBITDA	5,954	4,278	39.2	4,385	35.8	17,676	26,700	33,070	38,998
APAT	2,234	1,665	34.2	1,761	26.9	5,680	13,404	18,597	23,856
Diluted EPS (INR)	4.8	3.6	34.2	3.8	26.9	12.2	28.8	39.9	51.2
P/E (x)						79.3	33.6	24.2	18.9
EV / EBITDA (x)						27.3	18.2	14.5	11.9
RoCE (%)						7.9	13.4	16.9	19.2

Source: Company, HSIE Research

## BUY

CMP (on 09 Aug 2023) INR 963

Target Price INR 1,069

NIFTY 19,633

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 998	INR 1069
EPS %	FY24E	FY25E
	-6%	0%

### KEY STOCK DATA

Bloomberg code	BHFC IN
No. of Shares (mn)	466
MCap (INR bn) / (\$ mn)	448/5,483
6m avg traded value (INR mn)	961
52 Week high / low	INR 975/677

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.4	10.8	35.2
Relative (%)	17.6	2.2	23.0

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	45.25	45.25
FIs & Local MFs	27.70	28.80
FPIs	16.17	15.79
Public & Others	10.88	10.16
Pledged Shares	3.22	3.22

Source : BSE

Pledged shares as % of total shares

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