

10 August 2023

India | Equity research | Q1FY24 result review

Bharat Forge

Auto ancillaries

All-round earnings beat; valuations already capturing robust outlook

Bharat Forge's (BHFC) Q1FY24 standalone EBITDA margin was resilient at 26%, though EU operations turned EBITDA positive to 4.4% as against being in loss last quarter. Standalone revenue beat expectations despite this being a weak quarter for domestic CVs, with industrial exports driven by defence business execution driving revenue up QoQ as against CV segment exports remaining flattish QoQ. We are building in 14% volume growth for standalone BHFC in FY24 driven by growth in domestic CVs, exports PVs, defence business, aerospace business. Though we remain positive on FY24 business outlook of BHFC, we believe trading at ~26x FY25E earnings, all the good fundamentals are already factored in. BHFC has rallied by ~25% in past couple of months and with our revised DCF based target price of INR 899 (earlier INR773), implying 25x FY25E earnings, we downgrade BHFC to **REDUCE** (from Hold).

Conference call key takeaways and our views

- Standalone revenue beat was driven by 72% YoY growth in industrial segment revenue as defence business moved up to ~INR 2.5bn from less than ~INR 1bn YoY. In Q1FY24, BHFC won defence order of ~INR 2.8bn (to be executed across coming 18 months), taking the overall defence order book to ~INR 22bn. Both exports and domestic CV businesses were up ~10% YoY, with outlook of flattish growth for US Class-8 trucks in the coming quarters vs 8-12% growth in domestic CVs for FY24. BHFC is expecting ~30%+ YoY growth in aerospace segment exports vs flat revenue outlook for the oil & gas segment in FY24. Overall standalone tonnage at ~68kte was up ~5% YoY with realisation at INR 314/kg, up ~3% YoY. Under foreign subsidiaries, aluminium forging (35% of export subs revenue) grew ~20% QoQ as against steel forging being up 5% QoQ. We are building-in standalone tonnage growth of 14%/7% in FY24E/FY25E.

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Market Data

Market Cap (INR)	448bn
Market Cap (USD)	5,413mn
Bloomberg Code	BHFC IN
Reuters Code	BFRG.BO
52-week Range (INR)	975 /677
Free Float (%)	55.0
ADTV-3M (mn) (USD)	10.6

Price Performance (%)	3m	6m	12m
Absolute	25.2	11.5	36.3
Relative to Sensex	7.8	9.6	13.6

ESG Disclosure	2021	2022	Change
ESG score	59.1	62.6	3.4
Environment	61.6	51.9	(9.7)
Social	37.2	57.1	20.0
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	6.9	10.3
EBITDA	9.7	13.2
EPS	0.7	6.8

Previous Reports

06-05-2023: [Q4FY23 results review](#)

15-02-2023: [Q3FY24 results review](#)

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,04,611	1,29,103	1,60,090	1,78,904
EBITDA	20,159	17,675	27,100	34,950
EBITDA %	19.3	13.7	16.9	19.5
Net Profit	10,771	5,084	11,579	17,088
EPS (INR)	23.1	10.9	24.9	36.7
EPS % Chg YoY	(950.3)	(52.8)	127.8	47.6
P/E (x)	41.6	88.2	38.7	26.2
EV/EBITDA (x)	23.5	28.1	18.2	14.0
RoCE (%)	10.6	5.8	10.6	13.6
RoE (%)	18.0	7.7	16.4	21.5

- From profitability perspective, standalone EBITDAM was resilient and flat at ~26%, both YoY and QoQ, while gross profit/kg remained flat QoQ. With operating leverage continuing to support operating margins, high growth in the aerospace segment as against revenue growth of KSSL (100% defence subsidiary with lower margin) being higher than the portfolio growth rate, we expect standalone EBITDAM to remain around ~26-27% across FY24E-FY25E. EU operations reported INR 510mn of EBITDA vs loss of INR 140mn QoQ. BHFC is expecting to reach EBITDA-breakeven by end of FY24 in its US operations as against INR 350mn EBITDA loss in Q1FY24.

Exhibit 1: Q1FY24 result review (standalone)

Standalone (INR mn)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Net Sales	21,273	17,594	21%	19,973	7%
Raw Material	9,420	7,272	30%	8,678	9%
As a % of Sales	44.3%	41.3%	295 bps	43.5%	83 bps
Gross profit	11,853	10,322	15%	11,295	5%
Gross margin	55.7%	58.7%	-295 bps	56.5%	-83 bps
Staff Expenditure	1,494	1,357	10%	1,357	10%
As a % of Sales	7%	8%	-69 bps	7%	23 bps
Other Expenditure	4,873	4,364	12%	4,711	3%
As a % of Sales	23%	25%	-190 bps	24%	-68 bps
Total Expenditure	15,786	12,993	21%	14,746	7%
EBITDA	5,487	4,601	19%	5,226	5%
EBITDA Margin (%)	25.8%	26.2%	-36 bps	26.2%	-38 bps
Depreciation	1,089	1,064	2%	1,051	4%
EBIT	4,398	3,536	24%	4,176	5%
Interest	705	263	168%	658	7%
Other Income	472	259	82%	391	21%
PBT	4,165	3,532	18%	3,909	7%
Tax	1,050	883	19%	977	7%
Tax Rate (%)	25	25	2,104	25	2,164
Exceptional gain/(loss)	-	(213)	N.M.	(486)	N.M.
Reported PAT	3,115	2,437	28%	2,446	27%
Adjusted PAT	3,115	2,649	18%	2,932	6%

Source: Company data, I-Sec research

Exhibit 2: Q1FY24 standalone operational matrix

	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Shipment tonnage	67,780	57,915	17%	64,648	5%
Realisation/te (INR)	3,13,851	3,03,788	3%	3,08,948	2%
EBITDA /te (INR)	80,948	79,441	2%	80,844	0%
Gross Profit /te (INR)	1,74,880	1,78,222	-2%	1,74,708	0%

Source: I-Sec research, Company data

Exhibit 3: Estimates revision (standalone)

	FY24E			FY25E		
	Old	Revised	% change	Old	Revised	% change
Revenue (INR mn)	1,49,750	1,60,090	6.9%	1,62,260	1,78,904	10.3%
EBITDA (INR mn)	24,700	27,100	9.7%	30,871	34,950	13.2%
EBITDA margin (%)	16.5%	16.9%	43 bps	19.0%	19.5%	51 bps
PAT (INR mn)	11,502	11,579	0.7%	16,006	17,088	6.8%
EPS (INR)	24.7	24.9	0.7%	34.4	36.7	6.8%

Source: I-Sec research

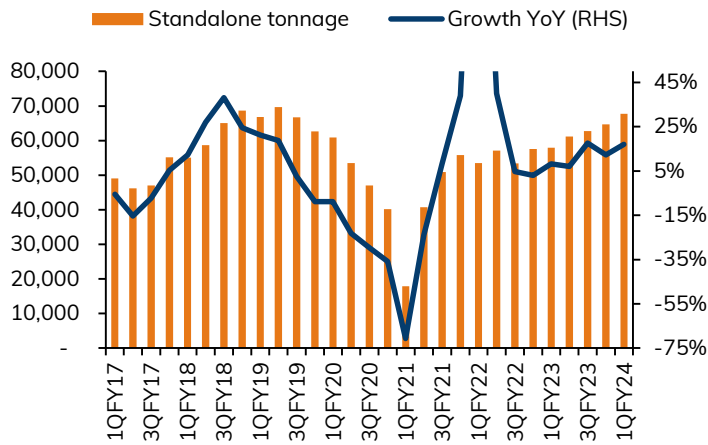
Upside risks

- Defence segment order book expanding faster than expected.
- Domestic CV cycle continuing beyond FY25.
- EU subsidiary business margin recovering to 10% levels in FY24 itself.

Downside risks

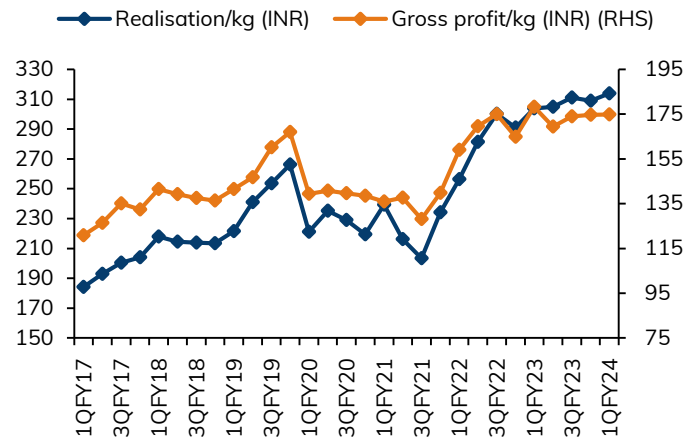
- Domestic CV demand correcting in FY24 itself.
- Delayed recovery in subsidiary margins.
- Defence order execution not expanding as expected.

Exhibit 4: Defence business driving up volume QoQ in an otherwise flat quarter for CVs



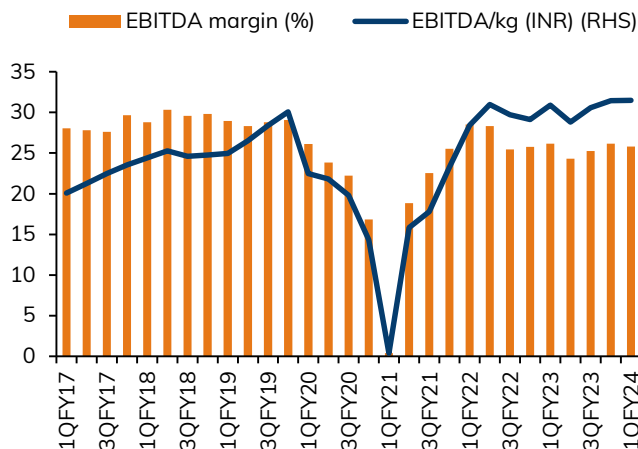
Source: Company data, I-Sec research

Exhibit 5: Gross profit/kg remaining steady QoQ



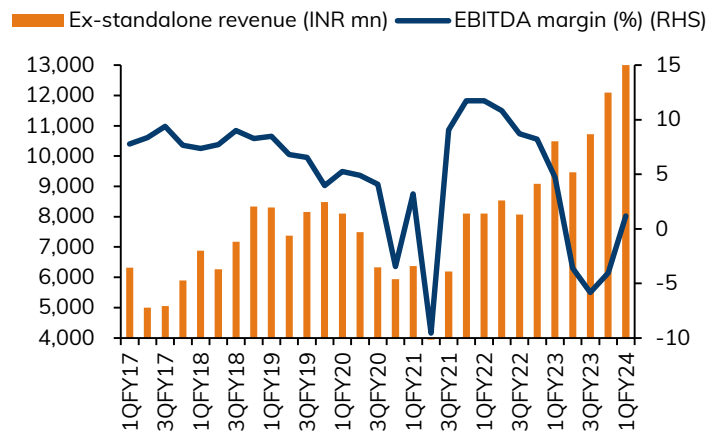
Source: Company data, I-Sec research

Exhibit 6: Standalone EBITDAM consolidating around 26% for almost a year



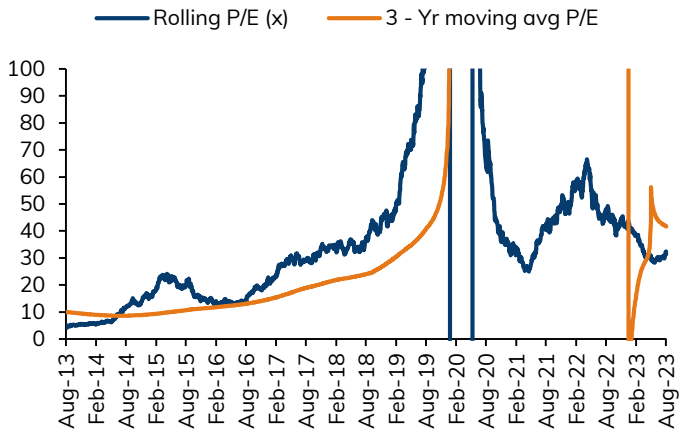
Source: Company data, I-Sec research

Exhibit 7: EU business back in EBITDA-positive zone; US to turn positive by end of FY24



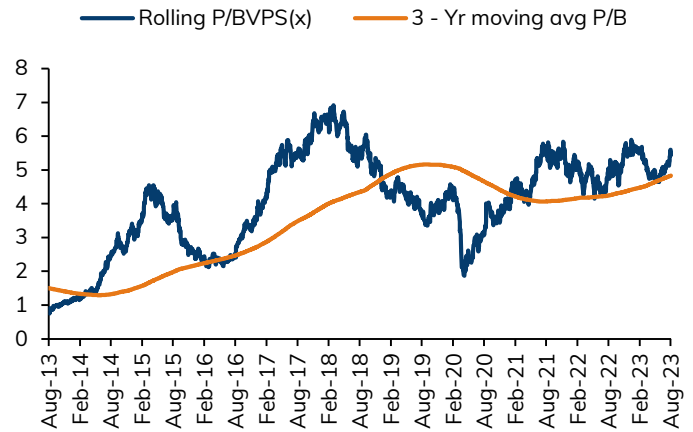
Source: Company data, I-Sec research

Exhibit 8: 3-year moving P/E



Source: Company data, I-Sec research

Exhibit 9: 3-year moving P/B



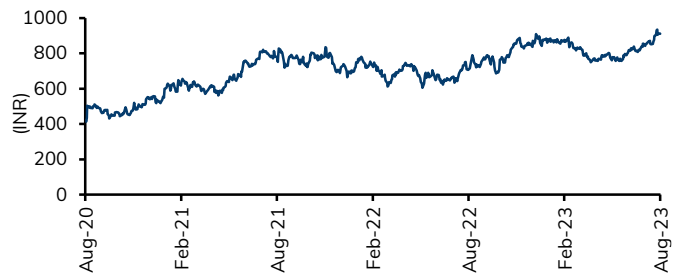
Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	45.3	45.3	45.3
Institutional investors	44.2	44.1	44.6
MFs and others	19.5	19.9	20.3
FIs/Banks	0.1	0.2	0.3
Insurance	5.0	5.6	5.7
FIIIs	19.6	18.4	18.3
Others	10.5	10.7	10.1

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,04,611	1,29,103	1,60,090	1,78,904
Operating Expenses	42,292	51,814	55,186	58,805
EBITDA	20,159	17,675	27,100	34,950
EBITDA Margin (%)	19.3	13.7	16.9	19.5
Depreciation & Amortisation	7,303	7,356	8,308	8,839
EBIT	12,856	10,319	18,792	26,111
Interest expenditure	1,604	2,986	4,500	4,000
Other Non-operating Income	2,553	936	2,250	2,300
Recurring PBT	13,805	8,269	16,542	24,411
Profit / Loss from Associates	-	-	-	-
Less: Taxes	3,035	3,186	4,963	7,323
PAT	10,771	5,084	11,579	17,088
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	10,771	5,084	11,579	17,088
Net Income (Adjusted)	10,771	5,084	11,579	17,088

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	68,933	88,038	1,01,887	1,10,842
of which cash & cash eqv.	6,030	10,395	12,621	11,106
Total Current Liabilities & Provisions	36,716	45,749	54,615	58,092
Net Current Assets	32,217	42,288	47,272	52,750
Investments	26,038	25,688	25,688	25,688
Net Fixed Assets	48,700	61,657	62,006	63,167
ROU Assets	-	-	-	-
Capital Work-in-Progress	11,248	6,964	8,307	8,307
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,18,202	1,36,597	1,43,273	1,49,913
Liabilities				
Borrowings	50,760	68,523	68,523	63,523
Deferred Tax Liability	1,175	658	658	658
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	931	931	931	931
Reserves & Surplus	64,775	66,124	72,800	84,439
Total Net Worth	65,707	67,055	73,731	85,371
Minority Interest	561	361	361	361
Total Liabilities	1,18,202	1,36,597	1,43,273	1,49,913

Source Company data, I-Sec research

Exhibit 14: 5-stage Du-Pont

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Tax Burden	78.0	61.5	70.0	70.0
Interest Burden	107.4	80.1	88.0	93.5
EBIT Margin	12.3	8.0	11.7	14.6
Asset Turnover	88.5	94.5	111.7	119.3
Financial Leverage	179.9	203.7	194.3	175.6
RoE	18.0	7.7	16.4	21.5

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	6,301	6,733	17,130	18,933
Working Capital Changes	(11,773)	(5,706)	(2,757)	(6,994)
Capital Commitments	(10,750)	(16,029)	(10,000)	(10,000)
Free Cashflow	(4,449)	(9,296)	7,130	8,933
Other investing cashflow	30	349	-	-
Cashflow from Investing Activities	(10,720)	(15,680)	(10,000)	(10,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	4,963	17,763	-	(5,000)
Dividend paid	(2,561)	(2,561)	(4,904)	(5,448)
Others	3,320	(1,891)	-	-
Cashflow from Financing Activities	5,721	13,311	(4,904)	(10,448)
Chg. in Cash & Bank balance	1,302	4,365	2,226	(1,515)
Closing cash & balance	6,030	10,395	12,621	11,106

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	23.1	10.9	24.9	36.7
Adjusted EPS (Diluted)	23.1	10.9	24.9	36.7
Cash EPS	38.8	26.7	42.7	55.7
Dividend per share (DPS)	5.5	5.5	10.5	11.7
Book Value per share (BV)	141.1	144.0	158.3	183.3
Dividend Payout (%)	23.8	50.4	36.2	27.3
Growth (%)				
Net Sales	65.1	23.4	24.0	11.8
EBITDA	133.9	(12.3)	53.3	29.0
EPS (INR)	(950.3)	(52.8)	127.8	47.6
Valuation Ratios (x)				
P/E	41.6	88.2	38.7	26.2
P/CEPS	24.8	36.1	22.6	17.3
P/BV	6.8	6.7	6.1	5.3
EV / EBITDA	23.5	28.1	18.2	14.0
EV / Sales	4.5	3.8	3.1	2.7
Profitability Ratios				
Gross Profit Margins (%)	59.7	53.8	51.4	52.4
EBITDA Margins (%)	19.3	13.7	16.9	19.5
EBIT Margins (%)	12.3	8.0	11.7	14.6
Net Profit Margins (%)	10.3	3.9	7.2	9.6
RoCE (%)	10.6	5.8	10.6	13.6
RoE (%)	18.0	7.7	16.4	21.5
Dividend Yield (%)	0.6	0.6	1.1	1.2
Operating Ratios				
Fixed Asset Turnover (x)	1.7	1.9	2.3	2.5
Inventory Turnover Days	95	88	84	84
Receivables Days	76	87	76	76
Payables Days	57	61	56	50
Effective Tax Rate (%)	22.0	38.5	30.0	30.0
Net Debt / Equity (x)	0.4	0.7	0.6	0.5
Net Debt / EBITDA (x)	1.3	2.7	1.7	1.2

Source Company data, I-Sec research

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