

Soft global outlook outweighs upside from Defence

Auto & Auto Ancillaries ▶ Result Update ▶ November 6, 2023

TARGET PRICE (Rs) : 1,030

BHFC's Q2FY24 EBITDA margin was up 118bps QoQ to 27% (PAT in line with Consensus). While we take cognizance of the Defence ramp-up (build 20% SA revenue contribution in FY26E vs. ~5% in FY23), the outlook for underlying CV industries (global and domestic) and industrial exports is softening (global CV OEMs have projected ~8-15% industry decline in developed markets in 2024; domestic CV growth to moderate on a high base; industrial exports outlook muted as well). We build ~17% FY23-26E EPS CAGR (trim FY24E EPS on global CV-market decline; growth upside from the Defence ramp-up over FY25E-26E largely offset by its margin-dilutive nature). Amid balanced risk-reward (trades near LTA EV/EBITDA), we maintain HOLD, with revised TP of Rs1,030/sh at ~16.5x standalone FY26E EV/EBITDA (rolled-over; previous TP: Rs920/sh).

Bharat Forge: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	62,546	75,727	89,472	1,02,291	1,15,745
EBITDA	16,798	19,288	24,127	27,397	30,655
Adj. PAT	10,101	11,034	13,803	15,682	17,729
Adj. EPS (Rs)	21.7	23.7	29.6	33.7	38.1
EBITDA margin (%)	26.9	25.5	27.0	26.8	26.5
EBITDA growth (%)	129.1	14.8	25.1	13.6	11.9
Adj. EPS growth (%)	245.3	(3.0)	32.0	13.6	13.1
RoE (%)	15.5	14.9	16.9	17.0	17.0
RoIC (%)	15.3	16.2	19.1	19.8	20.3
P/E (x)	49.6	45.4	36.3	31.9	28.3
EV/EBITDA (x)	30.8	27.7	22.1	19.4	17.2
P/B (x)	7.0	6.5	5.8	5.1	4.5
FCFF yield (%)	(0.1)	0.9	1.6	1.8	2.2

Source: Company, Emkay Research

Higher gross margin drives healthy EBITDA expansion QoQ

Standalone revenue grew ~21% YoY to Rs22.49bn (largely in-line). Growth on YoY basis was led by Domestic Non-Auto (up 50%; largely from Defence) and PV exports (up 39%). EBITDA grew 34% YoY to ~Rs6.1bn (~3% above estimate), with EBITDA margin up by 118bps QoQ to 27% (Emkay: 26.2%), amid higher than expected gross-margin expansion (up ~100bps QoQ). The management attributed margin expansion to better mix and cost initiatives. Adjusted PAT grew ~30% YoY to Rs3.48bn (in line with Consensus estimates).

Earnings call KTAs

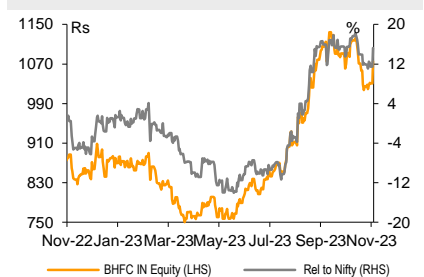
1) Barring global disturbances, BHFC expects the business momentum to endure in H2FY24. 2) Outlook for the North America Class 8 truck industry in FY25E is flattish (300-310K units), though Company expects positive momentum in the domestic CV market. Company has been winning market share in export CVs amid new product introduction and entry into newer geographies. 3) Outlook for the export Industrials segment is also flattish, with India Industrials outlook positive – except for some slowness in the Renewable Energy category. 4) Expects the PV vertical to be a strong growth driver across exports as well as domestic operations. 5) New business wins in H1FY24 for Standalone operations are placed at Rs7.4bn, including Rs3bn from the e-mobility vertical. 6) Kalyani Strategic Systems (KSSL; defence vertical) secured new business wins worth Rs11bn in Q2, with the executable order book now placed at Rs30bn over 24 months; the domestic order for artillery guns (ATAGs) remains work in progress; Company expects movement on this front soon. 7) In Q2, capacity utilization in the US/European aluminium business stood at ~50%/~70%, respectively; aims to scale up these businesses to mid-teen margin levels by FY25, driven by new product introduction, greater value addition and improved pricing. 8) For Defence and domestic Industrial subsidiaries, BHFC aims to achieve ~25% EBITDA margins close to FY25E

Target Price – 12M	Sep-24
Change in TP (%)	12.0
Current Reco.	HOLD
Previous Reco.	BUY
Upside/(Downside) (%)	(4.2)
CMP (06-Nov-23) (Rs)	1,075.7

Stock Data	Ticker
52-week High (Rs)	1,148
52-week Low (Rs)	744
Shares outstanding (mn)	465.6
Market-cap (Rs bn)	501
Market-cap (USD mn)	6,019
Net-debt, FY24E (Rs mn)	31,250
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,326.9
ADTV-3M (USD mn)	15.9
Free float (%)	54.8
Nifty-50	19,412
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	45.3
FPIs/MFs (%)	16.3/28.1

Price Performance

(%)	1M	3M	12M
Absolute	(1.5)	17.9	25.8
Rel. to Nifty	(0.3)	18.5	17.4

1-Year share price trend (Rs)**Jaimin Desai**

jaimin.desai@emkayglobal.com
+91 22 6612 1334

Chirag Jain

chirag.jain@emkayglobal.com
+91 22 6624 2428

Vijay Naraharisetty

vijay.naraharisetty@emkayglobal.com
+91 22 6612 1306

Exhibit 1: Q2FY24 results snapshot – Revenue up ~21% YoY, with margin increase of ~118bps QoQ on gross-margin expansion

Standalone (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Change YoY (%)	Change QoQ (%)
Revenue	17,594	18,639	19,521	19,973	21,273	22,494	20.7	5.7
Expenditure	12,993	14,109	14,585	14,747	15,786	16,426	16.4	4.1
<i>as % of sales</i>	73.8	75.7	74.7	73.8	74.2	73.0		
Consumption of RM	7,272	8,281	8,602	8,678	9,420	9,744	17.7	3.4
<i>as % of sales</i>	41.3	44.4	44.1	43.5	44.3	43.3		
Employee Cost	1,357	1,351	1,365	1,357	1,494	1,506	11.5	0.8
<i>as % of sales</i>	7.7	7.2	7.0	6.8	7.0	6.7		
Other expenditure	4,364	4,477	4,619	4,711	4,873	5,175	15.6	6.2
<i>as % of sales</i>	24.8	24.0	23.7	23.6	22.9	23.0		
EBITDA	4,601	4,530	4,936	5,226	5,487	6,068	33.9	10.6
EBITDA margin (%)	26.2	24.3	25.3	26.2	25.8	27.0		
Depreciation	1,064	1,066	1,079	1,051	1,089	1,128	5.9	3.6
EBIT	3,536	3,465	3,856	4,176	4,398	4,940	42.6	12.3
Other Income	259	477	377	391	472	424	(11.2)	(10.3)
Interest	263	357	849	658	705	726	103.2	3.0
PBT	3,532	3,585	3,385	3,909	4,165	4,637	29.4	11.3
Total Tax	815	897	952	708	1,050	1,156	28.8	10.1
Adjusted PAT	2,717	2,687	2,434	3,201	3,115	3,481	29.5	11.7
Extra ordinary items Loss/(Gain)	280	6	-458	755	0	21		
Reported PAT	2,437	2,681	2,892	2,445	3,115	3,460	29.0	11.1
Adjusted EPS (Rs)	5.8	5.8	5.2	6.9	6.7	7.5	29.5	11.7
(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Change YoY (bps)	Change QoQ (bps)
EBITDA margin	26.2	24.3	25.3	26.2	25.8	27.0	267	118
EBIT margin	20.1	18.6	19.8	20.9	20.7	22.0	337	129
EBT margin	20.1	19.2	17.3	19.6	19.6	20.6	138	104
PAT margin	15.4	14.4	12.5	16.0	14.6	15.5	106	83
Effective Tax rate	23.1	25.0	28.1	18.1	25.2	24.9	(10)	(28)

Source: Company, Emkay Research

Exhibit 2: Standalone operations – Q2FY24 actual performance vs. estimates

(Rs mn)	Actual	Emkay Est	% variance	Consensus	% variance
Net sales	22,494	22,472	0.1	22,173	1.4
EBITDA	6,068	5,888	3.1	5,871	3.3
EBITDA margin (%)	27.0	26.2	78 bps	26.5	50 bps
Adj net income	3,481	3,239	7.5	3,458	0.7
FDEPS (Rs)	7.5	7.0	7.5	7.4	0.7

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Global CV OEMs have projected a high single-digit/low double-digit decline in the North America/Europe truck markets

No. of units	2023 projection			2024 projection	
	Latest	Previous	Difference	Outlook	Growth YoY (%)
Paccar					
USA and Canada	295,000 - 315,000	290,000 - 320,000	-	260,000 - 300,000	(8)
Europe	310,000 - 330,000	300,000 - 330,000	5,000	260,000 - 300,000	(13)
Volvo					
North America	330,000	330,000	-	290,000	(12)
Europe	340,000	330,000	10,000	290,000	(15)

Source: Company, Emkay Research; Note – for Paccar, difference in 2023 calculated from the mid-point of the guidance range; growth for 2024 calculated from the mid-point of the reference range

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Exhibit 4: Revenue model – We build-in 15%/17% revenue/EPS CAGR over FY23-26E

(Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Segmental revenues							
India CV	5,167	5,111	7,417	10,140	11,560	12,369	13,111
Growth (%)	(53)	(1)	45	37	14	7	6
India Industrial	8,078	7,446	11,665	12,978	20,574	27,714	34,272
Growth (%)	(20)	(8)	57	11	59	35	24
India PV	2,263	2,161	2,936	3,513	3,970	4,446	4,980
Growth (%)	(5)	(5)	36	20	13	12	12
Export CV	12,702	9,591	17,180	19,120	18,863	19,674	21,505
Growth (%)	(20)	(24)	79	11	(1)	4	9
Export Industrial	8,753	5,555	13,932	15,933	16,626	17,613	18,679
Growth (%)	(47)	(37)	151	14	4	6	6
Export PV	5,047	4,496	5,591	9,552	11,940	13,731	15,379
Growth (%)	4	(11)	24	71	25	15	12
Others	2,310	1,670	2,978	3,452	3,797	3,987	4,187
Growth (%)	(18)	(28)	78	16	10	5	5
Total Standalone revenues	45,639	36,515	62,546	75,727	89,472	1,02,291	1,15,745
Growth (%)	(30)	(20)	71	21	18	14	13
EBITDA	10,399	7,332	16,798	19,288	24,127	27,397	30,655
Growth (%)	(45)	(29)	129	15	25	14	12
EBITDA Margin (%)	22.8	20.1	26.9	25.5	27.0	26.8	26.5
PAT	5,683	3,269	10,101	11,034	13,803	15,682	17,729
PAT Margin (%)	12.5	9.0	16.1	14.6	15.4	15.3	15.3
EPS (Rs)	12.2	7.0	21.7	23.7	29.6	33.7	38.1

Source: Company, Emkay Research

Exhibit 5: Segment-wise growth expectations

Revenues (Rs mn)	FY23E	FY24E	FY25E	FY26E	Comments for FY23-26E
Domestic CVs	10,140	11,560	12,369	13,111	9% CAGR led by ~5% growth in production for the underlying industry; higher tonnage mix driving the increase in content/vehicle and realization growth
Domestic PVs	3,513	3,970	4,446	4,980	12% CAGR growth led by 7% rise in production for the underlying industry, new products, new customer orders and realization growth
Domestic Industrials	12,978	20,574	27,714	34,272	
Domestic Railways	750	938	1,125	1,294	20% CAGR growth led by traction for new products and low base
Domestic Tractors	1,992	2,032	2,194	2,370	6% CAGR growth led by 3% growth in Tractors and MS gain
Construction Equipment/Others	6,136	6,504	6,894	7,308	6% CAGR broadly in-line with domestic GDP growth
Defence	4,100	11,100	17,500	23,300	78% CAGR on execution of the Defence order book and partial execution of the ATAGS order
Export CV	19,120	18,863	19,674	21,505	
North America CV	12,015	12,256	12,868	14,155	6% CAGR, amid flattish production for the underlying segment owing to new products and light weighting, market-share gains and realization growth
Europe CV	7,105	6,607	6,806	7,350	2% CAGR growth amid 3% de-growth in production for the underlying segment, new products, market-share gains and realization growth
Export PV	9,552	11,940	13,731	15,379	17% CAGR growth due to growth in the underlying industry (+5%), traction for orders for new products, new customers and products, realization growth
Export Industrial	15,933	16,626	17,613	18,679	
Oil and Gas	9,105	9,560	10,038	10,540	5% CAGR, led by 4% growth in rig counts
Aerospace	794	1,032	1,239	1,486	23% CAGR, led by new customer wins and products
Construction Equip./Mining/Others	6,034	6,034	6,336	6,652	3% CAGR led by recovery in industrial activity

Source: Emkay Research

Exhibit 6: We cut FY24E EPS by ~2%; raise FY25E/FY26E EPS by 0.7%/2% led by ramp-up of the Defence vertical

(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	92,041	89,472	(2.8)	18.2	98,982	102,291	3.3	14.3	106,933	115,745	8.2	13.2
EBITDA	24,874	24,127	(3.0)	25.1	27,308	27,397	0.3	13.6	29,799	30,655	2.9	11.9
Margin (%)	27.0	27.0	-6 bps	149 bps	27.6	26.8	-81 bps	-18 bps	27.9	26.5	-138 bps	-30 bps
Net Profit	14,133	13,803	(2.3)	25.1	15,570	15,682	0.7	13.6	17,377	17,729	2.0	13.1
EPS (Rs)	30.3	29.6	(2.3)	25.1	33.4	33.7	0.7	13.6	37.3	38.1	2.0	13.1

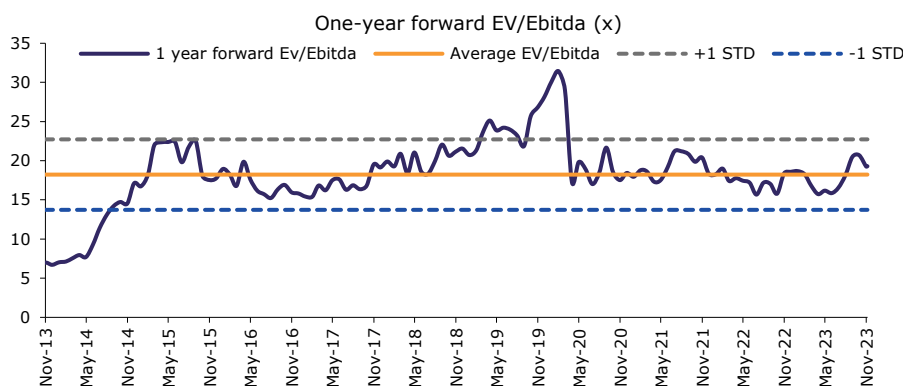
Source: Emkay Research

Exhibit 7: Emkay vs. Consensus estimates

(Rs mn)	Emkay Estimates			Bloomberg estimates			Difference (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net revenue	89,472	1,02,291	1,15,745	87,962	96,905	1,05,558	1.7%	5.6%	9.7%
EBITDA	24,127	27,397	30,655	23,347	26,536	29,273	3.3%	3.2%	4.7%
EBITDA margin	27.0%	26.8%	26.5%	26.5%	27.4%	27.7%	1.6%	-2.2%	-4.5%
EPS (Rs)	29.6	33.7	38.1	30.1	35.4	40.1	-1.7%	-5.0%	-5.1%

Source: Bloomberg, Emkay Research

Exhibit 8: Valuations in line with LTA, on 1-year forward basis



Source: Bloomberg, Emkay Research

Bharat Forge : Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	62,546	75,727	89,472	1,02,291	1,15,745
Revenue growth (%)	71.3	21.1	18.2	14.3	13.2
EBITDA	16,798	19,288	24,127	27,397	30,655
EBITDA growth (%)	129.1	14.8	25.1	13.6	11.9
Depreciation & Amortization	4,118	4,260	4,599	5,173	5,563
EBIT	12,680	15,029	19,527	22,224	25,091
EBIT growth (%)	245.4	18.5	29.9	13.8	12.9
Other operating income	0	0	0	0	0
Other income	1,675	1,505	1,756	1,640	1,736
Financial expense	1,073	2,127	2,879	2,955	3,189
PBT	13,282	14,407	18,404	20,909	23,638
Extraordinary items	677	(579)	0	0	0
Taxes	3,181	3,373	4,601	5,227	5,910
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,778	10,455	13,803	15,682	17,729
PAT growth (%)	245.3	(3.0)	32.0	13.6	13.1
Adjusted PAT	10,101	11,034	13,803	15,682	17,729
Diluted EPS (Rs)	21.7	23.7	29.6	33.7	38.1
Diluted EPS growth (%)	245.3	(3.0)	32.0	13.6	13.1
DPS (Rs)	5.5	7.0	8.8	9.9	11.2
Dividend payout (%)	23.8	31.2	29.5	29.5	29.5
EBITDA margin (%)	26.9	25.5	27.0	26.8	26.5
EBIT margin (%)	20.3	19.8	21.8	21.7	21.7
Effective tax rate (%)	24.0	23.4	25.0	25.0	25.0
NOPLAT (pre-IndAS)	9,643	11,510	14,646	16,668	18,819
Shares outstanding (mn)	465.7	465.7	465.7	465.7	465.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	13,282	14,407	18,404	20,909	23,638
Others (non-cash items)	2,722	4,143	7,500	8,144	8,768
Taxes paid	(3,446)	(3,955)	(4,583)	(5,206)	(5,886)
Change in NWC	(10,481)	(6,713)	(7,626)	(9,070)	(9,937)
Operating cash flow	2,754	7,883	13,695	14,777	16,584
Capital expenditure	(3,026)	(2,850)	(5,000)	(5,000)	(5,000)
Acquisition of business	295	(3,426)	(4,000)	(3,000)	(3,000)
Interest & dividend income	245	268	0	0	0
Investing cash flow	(2,487)	(6,008)	(9,000)	(8,000)	(8,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	3,380	3,410	(133)	2,471	4,743
Payment of lease liabilities	(277)	(335)	0	0	0
Interest paid	(714)	(1,546)	(2,879)	(2,955)	(3,189)
Dividend paid (incl tax)	(1,642)	(3,253)	(3,260)	(4,078)	(4,633)
Others	12	43	0	0	0
Financing cash flow	759	(1,680)	(6,271)	(4,561)	(3,079)
Net chg in Cash	1,027	195	(1,577)	2,216	5,504
OCF	2,754	7,883	13,695	14,777	16,584
Adj. OCF (w/o NWC chg.)	(7,727)	1,170	6,068	5,707	6,647
FCFF	(271)	5,033	8,695	9,777	11,584
FCFE	(1,100)	3,174	5,816	6,822	8,394
OCF/EBITDA (%)	16.4	40.9	56.8	53.9	54.1
FCFE/PAT (%)	(10.2)	30.4	42.1	43.5	47.3
FCFF/NOPLAT (%)	(2.8)	43.7	59.4	58.7	61.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	931	931	931	931	931
Reserves & Surplus	70,166	76,069	85,794	96,843	1,09,334
Net worth	71,098	77,000	86,725	97,774	1,10,265
Minority interests	0	0	0	0	0
Deferred tax liability (net)	2,888	2,000	2,019	2,039	2,063
Total debt	39,500	44,356	44,224	46,695	51,438
Total liabilities & equity	1,13,485	1,23,356	1,32,967	1,46,508	1,63,766
Net tangible fixed assets	30,722	30,088	29,892	29,719	29,156
Net intangible assets	103	103	103	103	103
Net ROU assets	2,186	2,186	2,186	2,186	2,186
Capital WIP	2,480	3,032	3,629	3,629	3,629
Goodwill	0	0	0	0	0
Investments [JV/Associates]	20,003	35,267	36,267	37,267	38,267
Cash & equivalents	22,823	11,551	12,974	17,190	24,694
Current assets (ex-cash)	50,090	59,714	70,553	82,062	94,441
Current Liab. & Prov.	14,923	18,585	22,637	25,647	28,709
NWC (ex-cash)	35,167	41,130	47,916	56,415	65,732
Total assets	1,13,485	1,23,356	1,32,967	1,46,508	1,63,766
Net debt	16,676	32,806	31,250	29,505	26,744
Capital employed	1,13,485	1,23,356	1,32,967	1,46,508	1,63,766
Invested capital	68,178	73,507	80,097	88,422	97,176
BVPS (Rs)	152.7	165.3	186.2	210.0	236.8
Net Debt/Equity (x)	0.2	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	1.0	1.7	1.3	1.1	0.9
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	10.1	10.5	12.5	12.8	13.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	49.6	45.4	36.3	31.9	28.3
P/CE(x)	35.2	32.8	27.2	24.0	21.5
P/B (x)	7.0	6.5	5.8	5.1	4.5
EV/Sales (x)	8.3	7.0	5.9	5.2	4.6
EV/EBITDA (x)	30.8	27.7	22.1	19.4	17.2
EV/EBIT(x)	40.8	35.5	27.3	23.9	21.0
EV/IC (x)	7.6	7.3	6.6	6.0	5.4
FCFF yield (%)	(0.1)	0.9	1.6	1.8	2.2
FCFE yield (%)	(0.2)	0.6	1.2	1.4	1.7
Dividend yield (%)	0.5	0.7	0.8	0.9	1.0
DuPont-RoE split					
Net profit margin (%)	16.1	14.6	15.4	15.3	15.3
Total asset turnover (x)	0.6	0.6	0.7	0.7	0.7
Assets/Equity (x)	1.6	1.6	1.6	1.5	1.5
RoE (%)	15.5	14.9	16.9	17.0	17.0
DuPont-RoIC					
NOPLAT margin (%)	15.4	15.2	16.4	16.3	16.3
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	15.3	16.2	19.1	19.8	20.3
Operating metrics					
Core NWC days	205.2	198.2	195.5	201.3	207.3
Total NWC days	205.2	198.2	195.5	201.3	207.3
Fixed asset turnover	1.2	1.4	1.5	1.6	1.7
Opex-to-revenue (%)	32.3	31.2	30.1	30.1	29.9

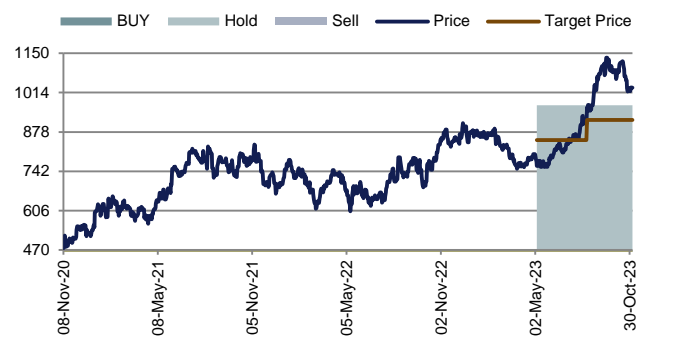
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Aug-23	963	920	Hold	Chirag Jain
05-May-23	760	850	Hold	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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