

May 9, 2024

Q4FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		ACCUMULATE	
Target Price	1,615		1,270	
Sales (Rs. m)	1,85,006	2,09,621	1,76,101	1,92,597
% Chng.	5.1	8.8		
EBITDA (Rs. m)	34,511	43,026	34,466	40,735
% Chng.	0.1	5.6		
EPS (Rs.)	42.7	53.8	38.7	48.8
% Chng.	10.4	10.2		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,29,103	1,56,821	1,85,006	2,09,621
EBITDA (Rs. m)	17,675	25,579	34,511	43,026
Margin (%)	13.7	16.3	18.7	20.5
PAT (Rs. m)	4,280	8,793	19,866	25,071
EPS (Rs.)	9.2	18.9	42.7	53.8
Gr. (%)	(60.3)	105.5	125.9	26.2
DPS (Rs.)	5.5	6.5	7.0	7.0
Yield (%)	0.4	0.5	0.5	0.5
RoE (%)	5.8	10.8	21.1	22.3
RoCE (%)	8.7	13.2	18.4	21.0
EV/Sales (x)	5.4	4.3	3.7	3.2
EV/EBITDA (x)	39.1	26.6	19.8	15.7
PE (x)	152.9	74.4	32.9	26.1
P/BV (x)	8.5	7.6	6.4	5.4

Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.1,474 / Rs.753
Sensex / Nifty	73,466 / 22,303
Market Cap	Rs.654bn/ \$ 7,833m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.1758.71m

Shareholding Pattern (%)

Promoter's	45.25
Foreign	16.47
Domestic Institution	28.24
Public & Others	10.03
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	19.7	35.9	80.5
Relative	21.8	20.2	51.8

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Bharat Forge (BHFC IN)

Rating: BUY | CMP: Rs1,405 | TP: Rs1,615

Strong defense order book to drive growth

Quick Pointers:

- International subsidiary to be profitable in FY25.
- Strong executable defense order of Rs 52bn with 80% accounting for exports.

We increased our FY26E consolidated estimate for revenue/EPS by ~9/10% respectively owing to strong order book, profitability in its international subsidiary in FY25 and strong management commentary. Its Q4FY24 standalone revenue grew by 16.6% YoY which was 3.4% below our estimate while it was 2.2% higher than consensus estimate. Gross margin was ~80bps better than our estimates at 58.6% driven by execution of the export order book. It reported strong YoY growth across segments with bulk of the growth coming in from International business as domestic business remained flat barring Industrial segment which grew ~2x over last year. Going ahead, the management expects ramp-up in Aerospace, Defense, Industrial and EV business shall drive the growth with meaningful contribution to its business in the next few years.

We remain positive on BHFC given (1) multiple growth drivers in the domestic & export automotive segment, (2) strong export order book mainly in the international market and (3) rising traction in the E-mobility division. Factoring this, we estimate its revenue/EBITDA/PAT to growth at a CAGR of 15%/29%/63% over FY24-26E. We upgrade our rating from 'ACCUMULATE' to 'BUY' with a TP of Rs 1,615 valuing it at 30x on its FY26E EPS.

- Robust revenue growth:** Its standalone revenue grew by 16.6% YoY to Rs 23.3bn which was below PLe (Rs 24.1bn). The growth in revenue was driven by the execution of defense orders as well as PV exports. In terms of volume; its shipment tonnage grew by 3% YoY while realization grew by 13.1% YoY to Rs 349.5k/ton. On the consolidated level, revenue grew by 14.7% YoY to Rs 41.6bn (PLe: 41bn). The growth in revenue was attributable to ramp-up of overseas Aluminium business and delivery of defense order books in the international market.
- Healthy margin improvement:** Its standalone EBITDA grew by 25.1% YoY to Rs 6.5bn (PLe: Rs 6.9bn) with a margin of 28.1% which was 192bps higher over Q4FY23. Consolidated EBITDA was higher by 36.6% YoY to Rs 6.5bn with a margin of 15.7% which expanded by ~250bps YoY. The expansion in standalone business was led by improvement in product mix while the expansion in consolidated business was driven by reduction of losses in Europe operations.

Exhibit 1: Standalone Q3FY24 Result Overview (Rs mn)

Y/e March	4QFY24	4QFY23	YoY gr. (%)	4QFY24E	Var (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Revenues	23,285	19,973	16.6	24,096	(3.4)	22,634	2.9	89,686	75,728	18.4
Raw Materials	9,647	8,678	11.2	10,169	(5.1)	9,491	1.6	38,301	32,833	16.7
<i>% of Net Sales</i>	<i>41.4</i>	<i>43.5</i>		<i>42.2</i>		<i>41.9</i>		<i>42.7</i>	<i>43.4</i>	
Personnel	1,504	1,357	10.8	1,508	(0.2)	1,510	(0.4)	6,014	5,430	10.8
<i>% of Net Sales</i>	<i>6.5</i>	<i>6.8</i>		<i>6.3</i>		<i>6.7</i>		<i>6.7</i>	<i>7.2</i>	
Manufacturing & Other Exp	5,595	4,711	18.8	5,545	0.9	5,178	8.1	20,684	18,353	12.7
<i>% of Net Sales</i>	<i>24.0</i>	<i>23.6</i>		<i>23.0</i>		<i>22.9</i>		<i>23.1</i>	<i>24.2</i>	
Total Expenditure	16,746	14,747	13.6	17,221	(2.8)	16,179	3.5	64,999	56,616	14.8
EBITDA	6,539	5,226	25.1	6,875	(4.9)	6,455	1.3	24,687	19,112	29.2
<i>EBITDA Margin (%)</i>	<i>28.1</i>	<i>26.2</i>		<i>28.5</i>		<i>28.5</i>		<i>27.5</i>	<i>25.2</i>	
Depreciation	1,079	1,081	(0.1)	1,151	(6.3)	1,124	(4.0)	4,420	4,260	3.8
EBIT	5,460	4,146	31.7	5,723	(4.6)	5,331	2.4	20,267	14,852	36.5
Interest Expenses	634	658	(3.6)	542	17.0	809	(21.6)	2,874	2,127	35.1
Non-operating income	434	44	888.8	533		522	(16.9)	1,714	1,505	13.9
Extraordinary Expenses	(133)	(408)	(67.3)	-	-	-		(154)	(402)	
PBT	5,127	3,124	64.1	5,715	(10.3)	5,044	1.6	18,953	13,828	37.1
Tax-Total	1,231	708	73.7	1,413	(12.9)	1,266	(2.8)	4,703	3,373	39.4
<i>Tax Rate (%) - Total</i>	<i>24.0</i>	<i>22.7</i>		<i>24.7</i>		<i>25.1</i>		<i>24.8</i>	<i>24.4</i>	
Reported PAT	3,896	2,415	61.3	4,302	(9.4)	3,778	3.1	14,250	10,456	36.3
Adj. PAT	3,997	2,731	46.4	4,302	(7.1)	3,778	5.8	14,366	10,760	33.5
<i>PAT Margin (%)</i>	<i>17.2</i>	<i>13.7</i>		<i>17.9</i>		<i>16.7</i>		<i>16.0</i>	<i>14.2</i>	

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	4QFY24	4QFY23	YoY gr. (%)	4QFY24E	Var (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Volume (MT)	66,619	64,648	3.0	68,107	(2.2)	67,477	(1.3)	2,72,335	2,46,467	10.5
Realisation / ton (Rs)	3,49,531	3,08,948	13.1	3,53,796	(1.2)	3,35,430	4.2	3,29,322	3,07,254	7.2
RM cost / ton (Rs)	1,44,806	1,34,240	7.9	1,49,307	(3.0)	1,40,650	3.0	1,40,639	1,33,216	5.6
Gross Profit / ton (Rs)	2,04,725	1,74,708	17.2	2,04,489	0.1	1,94,780	5.1	1,88,683	1,74,038	8.4
Staff Cost / ton (Rs)	22,582	20,995	7.6	22,140	2.0	22,377	0.9	22,085	22,032	0.2
Other Mfg cost / ton (Rs)	83,987	72,870	15.3	81,410	3.2	76,740	9.4	75,950	74,462	2.0
EBITDA / ton (Rs)	98,155	80,842	21.4	1,00,939	(2.8)	95,663	2.6	90,648	77,544	16.9
Adj. Profit / ton (Rs)	60,004	42,244	42.0	63,166	(5.0)	55,991	7.2	52,751	43,656	20.8

Source: Company, PL

Exhibit 3: Geographical and segment revenue mix (Rs mn)

Y/e March	4QFY24	4QFY23	YoY gr. (%)	4QFY24E	Var (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Domestic										
CV India	2,421	2,854	(15.2)	2,930	(17.4)	2,734	(11.4)	10,341	10,140	2.0
PV India	786	817	(3.8)	740	6.2	624	26.0	2,997	3,513	(14.7)
Industrial India	6,349	3,278	93.7	6,319	0.5	5,034	26.1	22,359	12,978	72.3
Others	1,241	1,221	1.6	1,298	(4.4)	1,093	13.5	4,708	4,492	4.8
Total domestic revenue	10,797	8,170	32.2	11,286	(4.3)	9,485	13.8	40,405	31,123	29.8
Exports										
CV Export	5,264	5,046	4.3	5,544	(5.1)	5,151	2.2	21,134	19,120	10.5
PV Export	3,266	2,516	29.8	3,467	(5.8)	2,782	17.4	12,694	9,552	32.9
Industrial Export	3,958	4,241	(6.7)	3,801	4.1	3,855	2.7	15,453	15,933	(3.0)
Total exports revenue	12,488	11,803	5.8	12,812	(2.5)	11,788	5.9	49,281	44,605	10.5
Total										
CV	7,685	7,900	(2.7)	8,474	(9.3)	7,885	(2.5)	31,475	29,260	7.6
PV	4,052	3,333	21.6	4,207	(3.7)	3,406	19.0	15,691	13,065	20.1
Industrial	10,307	7,519	37.1	10,120	1.9	8,889	16.0	37,812	28,911	30.8
Others	1,241	1,221	1.6	1,298	(4.4)	1,093	13.5	4,708	4,492	4.8
Net revenue	23,285	19,973	16.6	24,099	(3.4)	21,273	9.5	89,686	75,728	18.4
As % of domestic sales										
CV India	22.4	34.9		26.0		28.8		25.6	32.6	
PV India	7.3	10.0		6.6		6.6		7.4	11.3	
Industrial India	58.8	40.1		56.0		53.1		55.3	41.7	
Others	11.5	14.9		11.5		11.5		11.7	14.4	
As % of export sales										
CV Export	42.2	42.8		43.3		43.7		42.9	42.9	
PV Export	26.2	21.3		27.1		23.6		25.8	21.4	
Industrial Export	31.7	35.9		29.7		32.7		31.4	35.7	
As % of total sales										
CV	33.0	39.6		35.2		37.1		35.1	38.6	
PV	17.4	16.7		17.5		16.0		17.5	17.3	
Industrial	44.3	37.6		42.0		41.8		42.2	38.2	
Others	5.3	6.1		5.4		5.1		5.2	5.9	

Source: Company, PL

Conference Call Highlights

Defense & international business:

- Its executable defense order book stands at Rs 5.2bn of which 80% accounts for the exports market.
- Its European aluminium business is experiencing robust demand due to drivetrain agnostic components. Additionally, the European business has turned profitable and its capacity utilization of European operations stands at 75%.
- US operations capacity utilization is at 50% and the management expects it to be 100% post the completion of Phase 1 expansion with Phase 2 to be 100% operational by FY27. Additionally, the management foresees significant improvement in operational stability over the next 2 quarters.
- It expects the international subsidiaries to be profitable in FY25 which shall aid in margin expansion.

Capex:

- The Indian operations incurred capex of Rs 8bn while the overseas subsidiaries capex was at USD 60mn in FY24.
- Going ahead, the management plans to spend Rs 5bn for Indian operation while USD 65mn for the overseas entities of which majority will be towards US aluminium phase 2 expansion while some part of will be utilized as a maintenance capex in the Europe entity.

Others:

- The company indicated that its defense business will completely shift to its owned subsidiary called KSSL in FY25 once their new facilities are fully commissioned and the licenses get transferred to those physical facilities.
- Its investment in JS Auto is has been quite fruitful as it ended FY24 with a revenue of Rs 5.7bn with EBITDA for Q4FY24 higher than 16.5%. The company expects to double its revenue in next 4-5 years from this investment.
- The company expects the defense spending globally to increase which shall continue to aid in growth moment and order wins. Additionally, potential orders for ATAGS (Automated Towered Artillery Guns System) in India could further enhance its order book.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,29,103	1,56,821	1,85,006	2,09,621
YoY gr. (%)	23.4	21.5	18.0	13.3
Cost of Goods Sold	59,614	73,792	85,550	95,101
Gross Profit	69,489	83,029	99,456	1,14,519
Margin (%)	53.8	52.9	53.8	54.6
Employee Cost	15,631	18,600	21,603	24,050
Other Expenses	36,183	38,849	43,342	47,443
EBITDA	17,675	25,579	34,511	43,026
YoY gr. (%)	(10.2)	44.7	34.9	24.7
Margin (%)	13.7	16.3	18.7	20.5
Depreciation and Amortization	7,356	8,482	8,372	9,106
EBIT	10,319	17,097	26,139	33,921
Margin (%)	8.0	10.9	14.1	16.2
Net Interest	2,986	4,912	4,683	4,642
Other Income	1,271	2,151	4,658	3,671
Profit Before Tax	8,202	14,182	26,114	32,949
Margin (%)	6.4	9.0	14.1	15.7
Total Tax	3,186	5,288	6,448	8,128
Effective tax rate (%)	38.8	37.3	24.7	24.7
Profit after tax	5,016	8,894	19,666	24,821
Minority interest	-	-	-	-
Share Profit from Associate	(334)	53	200	250
Adjusted PAT	4,280	8,793	19,866	25,071
YoY gr. (%)	-	-	-	-
Margin (%)	3.3	5.6	10.7	12.0
Extra Ord. Income / (Exp)	(402)	(154)	-	-
Reported PAT	4,682	8,947	19,866	25,071
YoY gr. (%)	(57.8)	91.1	122.0	26.2
Margin (%)	3.6	5.7	10.7	12.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Equity Shares O/s (m)	466	466	466	466
EPS (Rs)	9.2	18.9	42.7	53.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	58,587	62,194	70,694	79,194
Tangibles	58,587	62,194	70,694	79,194
Intangibles	-	-	-	-
Acc: Dep / Amortization	26,210	30,630	35,215	40,274
Tangibles	26,210	30,630	35,215	40,274
Intangibles	-	-	-	-
Net fixed assets	32,377	31,564	35,479	38,921
Tangibles	32,377	31,564	35,479	38,921
Intangibles	-	-	-	-
Capital Work In Progress	3,032	3,760	4,136	4,550
Goodwill	-	-	-	-
Non-Current Investments	35,267	34,564	38,358	41,622
Net Deferred tax assets	(2,000)	(1,523)	(343)	(343)
Other Non-Current Assets	7,292	5,877	6,737	7,723
Current Assets				
Investments	7,527	10,090	10,594	11,442
Inventories	12,638	13,295	17,169	18,588
Trade receivables	32,547	36,264	42,064	47,111
Cash & Bank Balance	4,024	10,606	10,183	17,836
Other Current Assets	7,011	4,886	5,375	5,912
Total Assets	1,41,941	1,51,943	1,71,288	1,95,064
Equity				
Equity Share Capital	931	931	931	931
Other Equity	76,069	84,757	1,01,859	1,20,821
Total Networth	77,000	85,688	1,02,791	1,21,752
Non-Current Liabilities				
Long Term borrowings	15,487	16,008	16,488	16,983
Provisions	220	538	592	651
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	32,476	31,622	32,254	32,899
Trade payables	12,127	12,871	14,021	15,704
Other current liabilities	2,240	3,576	4,670	6,590
Total Equity & Liabilities	1,41,941	1,51,943	1,71,288	1,95,064

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	8,604	14,337	26,114	32,949
Add. Depreciation	7,356	8,482	8,372	9,106
Add. Interest	2,986	4,912	4,683	4,642
Less Financial Other Income	1,271	2,151	4,658	3,671
Add. Other	(1,271)	(2,151)	(4,658)	(3,671)
Op. profit before WC changes	17,675	25,579	34,511	43,026
Net Changes-WC	(10,965)	332	(7,949)	(8,362)
Direct tax	(2,750)	(5,751)	(6,448)	(8,128)
Net cash from Op. activities	3,960	20,161	20,114	26,536
Capital expenditures	(13,581)	(12,862)	(11,367)	(11,668)
Interest / Dividend Income	-	-	-	-
Others	(6,900)	2,484	2,027	711
Net Cash from Invt. activities	(20,481)	(10,378)	(9,340)	(10,957)
Issue of share cap. / premium	(1,709)	(1,785)	696	(2,600)
Debt changes	22,011	6,204	-	-
Dividend paid	(2,561)	(3,027)	(3,260)	(3,260)
Interest paid	(2,986)	(4,912)	(4,683)	(4,642)
Others	-	-	-	-
Net cash from Fin. activities	14,755	(3,519)	(7,246)	(10,501)
Net change in cash	(1,766)	6,263	3,527	5,077
Free Cash Flow	(9,621)	7,298	8,746	14,868

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	38,773	37,742	38,664	41,642
YoY gr. (%)	36.0	22.7	15.3	14.7
Raw Material Expenses	18,780	17,642	17,803	19,566
Gross Profit	19,992	20,100	20,861	22,076
Margin (%)	51.6	53.3	54.0	53.0
EBITDA	6,175	6,223	6,730	6,532
YoY gr. (%)	44.3	44.1	55.6	36.6
Margin (%)	15.9	16.5	17.4	15.7
Depreciation / Depletion	2,061	2,113	2,237	2,071
EBIT	4,114	4,110	4,493	4,461
Margin (%)	10.6	10.9	11.6	10.7
Net Interest	1,145	1,243	1,368	1,155
Other Income	642	525	560	548
Profit before Tax	3,389	3,403	3,933	3,653
Margin (%)	8.7	9.0	10.2	8.8
Total Tax	1,278	1,218	1,406	1,387
Effective tax rate (%)	37.7	35.8	35.7	38.0
Profit after Tax	2,112	2,186	2,527	2,266
Minority interest	(97)	(124)	(101)	(90)
Share Profit from Associates	25	5	17	6
Adjusted PAT	2,372	2,307	2,486	2,486
YoY gr. (%)	43.8	60.5	232.5	28.3
Margin (%)	6.1	6.1	6.4	6.0
Extra Ord. Income / (Exp)	(138)	8	160	(125)
Reported PAT	2,234	2,314	2,646	2,361
YoY gr. (%)	37.2	61.4	245.4	74.2
Margin (%)	5.8	6.1	6.8	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	-	-	-	-
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

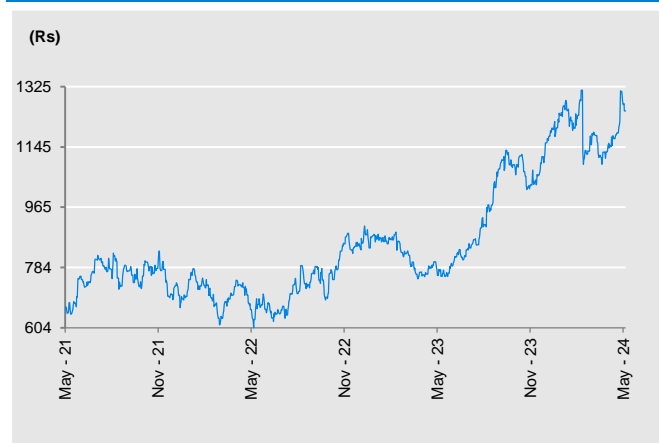
Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	9.2	18.9	42.7	53.8
CEPS	25.0	37.1	60.6	73.4
BVPS	165.4	184.0	220.8	261.5
FCF	(20.7)	15.7	18.8	31.9
DPS	5.5	6.5	7.0	7.0
Return Ratio(%)				
RoCE	8.7	13.2	18.4	21.0
ROIC	5.9	9.9	16.2	19.3
RoE	5.8	10.8	21.1	22.3
Balance Sheet				
Net Debt : Equity (x)	0.5	0.3	0.3	0.2
Net Working Capital (Days)	88	79	84	82
Valuation(x)				
PER	152.9	74.4	32.9	26.1
P/B	8.5	7.6	6.4	5.4
P/CEPS	56.2	37.9	23.2	19.1
EV/EBITDA	39.1	26.6	19.8	15.7
EV/Sales	5.4	4.3	3.7	3.2
Dividend Yield (%)	0.4	0.5	0.5	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Shipment tonnage (MT)	2,46,467	2,73,578	3,00,936	3,23,506
Net realisation (Rs/ton)	3,07,254	3,27,827	3,47,065	3,61,585

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	Accumulate	1,270	1,146
2	12-Feb-24	Accumulate	1,295	1,131
3	08-Jan-24	Accumulate	1,320	1,266
4	07-Nov-23	BUY	1,170	1,076
5	09-Oct-23	BUY	1,170	1,092
6	09-Aug-23	BUY	1,070	963
7	07-Jul-23	BUY	955	855

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	599	705
2	Ashok Leyland	BUY	210	176
3	Bajaj Auto	Sell	7,267	9,021
4	Bharat Forge	Accumulate	1,270	1,146
5	Bharat Petroleum Corporation	Sell	504	592
6	Bharti Airtel	Accumulate	1,269	1,204
7	CEAT	BUY	3,017	2,545
8	Clean Science and Technology	Hold	1,386	1,335
9	Deepak Nitrite	Reduce	1,985	2,208
10	Divgi Torqtransfer Systems	BUY	1,135	843
11	Eicher Motors	Accumulate	4,215	4,031
12	Endurance Technologies	Hold	1,980	1,900
13	Exide Industries	Accumulate	495	472
14	Fine Organic Industries	Hold	4,351	4,361
15	GAIL (India)	Sell	162	201
16	Gujarat Fluorochemicals	Reduce	3,120	3,638
17	Gujarat Gas	Hold	548	565
18	Gujarat State Petronet	BUY	392	378
19	Hero Motocorp	Accumulate	5,070	4,525
20	Hindustan Petroleum Corporation	Reduce	400	462
21	Indian Oil Corporation	Reduce	151	169
22	Indraprastha Gas	Sell	383	475
23	Jubilant Ingrevia	Hold	480	486
24	Laxmi Organic Industries	Sell	206	251
25	Mahanagar Gas	Sell	1,125	1,485
26	Mahindra & Mahindra	BUY	2,306	2,013
27	Mangalore Refinery & Petrochemicals	Sell	142	233
28	Maruti Suzuki	BUY	14,432	12,703
29	Navin Fluorine International	Accumulate	3,621	3,377

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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