

BSE SENSEX
84,929

S&P CNX
25,939

CMP: INR1,582

TP: INR1,470(-7%)

Neutral

BHARAT FORGE



Stock Info

	BHFC IN
Bloomberg	BHFC IN
Equity Shares (m)	466
M.Cap.(INRb)/(USDb)	736.7 / 8.8
52-Week Range (INR)	1826 / 1002
1, 6, 12 Rel. Per (%)	-7/23/13
12M Avg Val (INR M)	1810
Free float (%)	54.8

Financials Snapshot (INR b)

Y/E Mar	2024	2025E	2026E
Sales	156.8	176.9	199.3
EBITDA (%)	16.3	18.5	20.3
Adj. PAT	9.2	16.2	21.8
EPS (INR)	19.7	34.8	46.8
EPS Gr. (%)	61.8	76.4	34.5
BV/Sh. (INR)	154	175	209

Ratios

Net D:E	0.5	0.6	0.3
RoE (%)	13.2	21.2	24.4
RoCE (%)	8.7	12.4	15.1
Payout (%)	46.3	35.6	27.9

Valuations

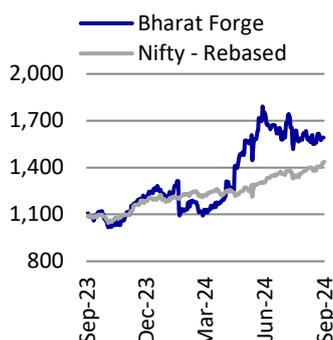
P/E (x)	80.2	45.5	33.8
P/BV (x)	10.3	9.0	7.6
EV/EBITDA (x)	30.4	23.9	19.1
Div. Yield (%)	0.6	0.7	0.8
FCF Yield (%)	0.3	0.6	2.6

Shareholding Pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	45.3	45.3	45.3
DII	28.1	28.3	28.8
FII	17.0	16.5	15.8
Others	9.6	10.0	10.2

FII includes depository receipts

Stock Performance (1-year)



Defense to remain growth driver

Near-term demand weak for other segments

We met BHFC's management team recently to understand the company's growth outlook in the coming years. Key growth drivers for BHFC would be: 1) the robust order backlog of INR54b in defense exports to be executable over the next three years, along with the prospects of the beginning of domestic defense orders soon; 2) with new order wins and multiple initiatives, JS Autocast (JSA) is likely to emerge as one of the fastest growing businesses of BHFC; 3) the aerospace segment is set to clock strong growth in the coming years; 4) PV exports are likely to moderate in FY25E, but they should pick up from FY26 onward given a healthy order backlog. However, CVs (both domestic and exports) and domestic PVs are likely to see weak growth. Given the weakness in Europe, the turnaround in overseas subsidiaries may happen with a lag of a couple of quarters. We estimate a CAGR of 13%/26%/54% in consolidated revenue/EBITDA/PAT over FY24-26. However, at 45.5x/34x FY25E/FY26E PER, we believe the current valuation fully prices in the positive factors. We remain Neutral with a revised TP of INR1,470 (based on 30x Sep'26E consolidated EPS).

Standalone entity updates

We believe that the defense segment will continue to be the key growth driver for the standalone business in FY25E as other segments are facing relatively weak demand in the near term.

Defense – likely to be the key growth driver for standalone entity

- BHFC has an order backlog of INR54b in defense exports to be executable over the next three years. These orders are spread across artillery guns, vehicles and consumables.
- Globally, there is huge requirement for replacement of guns. Even shells are in short supply, and BHFC is seeing a healthy order intake over the past few quarters.
- As per management, India needs almost 4k guns of various types, including towed, mounted, self-propelled, etc. BHFC can produce these guns as it has developed capability to produce nine different gun platforms over the years. BHFC is now building the capability to manufacture over 250 guns and 1,000 vehicles per annum.
- The domestic guns order of INR45b (divided between BHFC and Tata Advanced Systems) is likely to start anytime soon.
- Given the significant growth opportunities in domestic and exports, its defense business is likely to be the key growth driver for BHFC, at least for the next couple of years, if not more.

CV domestic business update:

- Domestic CV industry continues to see weak demand so far YTD, with the top three CV peers posting a 2% YoY decline for YTD.
- However, the management expects MHCV demand to pick up from 3Q onward and drive an improved 2H for the business.
- Overall, for FY25E, the CV segment is likely to post flat or marginal growth for BHFC.

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CV export business update:

- The US Class8 fleet market is likely to remain muted in CY24 and CY25.
- The outlook for the European CV market remains subdued given the ongoing slowdown in Europe.
- As a result, the management expects flat or marginal growth from this segment over the next couple of years.
- Given the change in emission norms expected in CY27, this market is likely to see pre-buying in CY26.

PV domestic business update:

- The domestic PV industry continues to see relatively weak demand amid rising inventory levels.
- Overall, BHFC's PV segment is likely to grow largely in line with the industry.

PV export business update:

- After posting a solid 41% CAGR in the last three years, this segment is likely to see growth moderation in FY25E as witnessed in 1Q results (1% YoY decline).
- The current slowdown is also due to a weak demand environment in Europe and Brazil.
- This segment is likely to regain its lost momentum from FY26 onward as its new orders go into production.

Non-auto exports:**Oil and gas:**

- This segment's revenue declined to as low as USD70mn in FY24; however, it is picking up and is likely to see healthy growth in FY25.
- However, BHFC continues to supply to a single customer here.
- The macro situation has not improved yet to support strong sustainable growth in the long run.

Aerospace segment:

- Leveraging its metallurgical expertise, BHFC has gained considerable proficiency in metal forming technology for building super-alloys, which will facilitate the development of complex engine parts and air-frame components in the future.
- BHFC's aerospace business is on the cusp of achieving a significant breakthrough. Its continued efforts in this segment are set to yield substantial growth.
- This segment posted INR2.4b in revenues in FY24. The management expects this business to grow 15-20% in FY25 and in strong double digits in FY26.

Subsidiary update:**JS Autocast (JSA):**

- JSA would continue to be a strong growth driver, as per the management.
- Beyond its anchor customers, JSA is now diversifying its customer base. Given a healthy order backlog, the management expects JSA to post healthy double-digit growth over the next 2-3 years.
- JSA achieved INR5.4b in revenues in FY24. The management expects JSA to reach INR10b in the next few years.
- Further, several initiatives focused on value addition, operational efficiency, capacity expansion and new product development are underway at JSA. BHFC also plans to scale up its machining capabilities significantly in response to strong demand for fully machined castings. These initiatives are expected to improve operational performance of JSA in the coming years.

Overseas subsidiaries performance

- In Europe, the management has initiated repricing steps with customers, which should conclude by FY25 end.
- Utilization was 70% in Europe and 50% in the US in 1Q.
- In the US, a slowdown in offtake from one of the OEMs has hurt its performance in 1Q. BHFC would continue to work on productivity improvement in this business. It expects a fairly strong improvement to be visible in the US subsidiary from 4Q onward.
- However, the ongoing slowdown is likely to impact the performance of overseas subsidiaries for a couple of quarters.
- Demand for steel forgings in overseas subs remains weak. The management is considering several restructuring initiatives (footprint optimization and manpower rationalization) to get costs under control in this segment in the next 12 months.

Other key highlights:

- Some of the plants in Mundwa are very old; hence, productivity is very low. BHFC wants to improve productivity of these plants through manpower rationalization and automation.
- Consolidated capex stands at INR10b over FY25-26E.
- BHFC has taken an impairment of its investments in Tork in 1Q. It invested about INR1.5b in this company. Tork management continues to work on alternate funding options. Further, in the power electronics business, BHFC currently supplies to a few CV OEMs.
- The management has recently taken an enabling resolution to raise funds of up to INR20b. The management has clarified that the proceeds would be used for funding organic (greenfield) and inorganic opportunities in India and globally.

Valuation and view

- We estimate a CAGR of 13%/26%/54% in consolidated revenue/EBITDA/PAT over FY24-26. However, at 45.5x/34x FY25E/FY26E PER, we believe the current valuation fully prices in the positive factors. We remain Neutral with a revised TP of INR1,540 (based on 30x Sep'26E consolidated EPS).

Financials and valuations

	(INR Million)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,01,457	80,558	63,362	1,04,611	1,29,103	1,56,821	1,76,856	1,99,266
Change (%)	21.4	-20.6	-21.3	65.1	23.4	21.5	12.8	12.7
EBITDA	20,284	11,389	8,617	19,803	17,676	25,579	32,718	40,451
Margin (%)	20.0	14.1	13.6	18.9	13.7	16.3	18.5	20.3
Depreciation	5,208	5,477	6,122	7,303	7,356	8,482	8,753	9,365
EBIT	15,076	5,912	2,495	12,500	10,320	17,097	23,966	31,086
Int. and Finance Charges	1,272	1,713	1,077	1,604	2,986	4,912	3,438	3,094
Other Income - Rec.	2,028	1,879	1,689	1,959	1,729	2,274	2,502	3,002
PBT bef. EO Exp.	15,832	6,077	3,107	12,855	9,062	14,460	23,029	30,994
EO Expense/(Income)	-272	1,031	3,062	-1,280	-458	123	1,518	0
PBT after EO Exp.	16,104	5,046	45	14,135	9,520	14,337	21,512	30,994
Current Tax	5,664	1,125	1,015	3,035	3,186	5,288	6,454	9,298
Deferred Tax	0	0	0	0	0	0	0	0
Tax Rate (%)	35.2	22.3	2276.6	21.5	33.5	36.9	30.0	30.0
Reported PAT	10,440	3,921	-971	11,101	6,334	9,049	15,058	21,695
PAT Adj for EO items	10,263	4,723	-67,623	10,096	6,030	9,126	16,121	21,695
Change (%)	20.8	-54.0	-1,531.8	-114.9	-40.3	51.4	76.6	34.6
Adj PAT	10,054	4,223	876	9,875	5,680	9,188	16,206	21,800

Consolidated - Balance Sheet

	(INR Million)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	931	931	931	931	931	931	931	931
Total Reserves	52,829	51,266	53,219	64,775	66,124	70,771	80,559	96,306
Net Worth	53,761	52,197	54,150	65,707	67,055	71,702	81,490	97,237
Minority Interest	298	320	317	561	361	-49	-49	-49
Deferred Liabilities	2,062	507	1,445	1,718	658	39	39	39
Total Loans	37,728	38,784	45,798	56,545	68,523	75,221	71,221	65,221
Capital Employed	93,850	91,807	1,01,710	1,24,531	1,36,597	1,46,913	1,52,701	1,62,448
Gross Block	86,322	95,553	1,09,197	81,087	98,375	1,07,096	1,17,096	1,25,096
Less: Accum. Deprn.	50,425	55,902	62,024	32,896	39,723	46,965	55,717	65,083
Net Fixed Assets	36,246	40,020	47,497	48,697	61,606	63,091	64,338	62,973
Capital WIP	8,307	11,427	9,001	11,248	7,012	9,912	9,912	9,912
Total Investments	15,237	16,180	26,070	26,040	25,691	18,493	19,493	22,493
Curr. Assets, Loans&Adv.	55,993	47,197	48,309	68,934	88,038	1,00,344	1,11,849	1,24,867
Inventory	18,447	17,347	17,939	27,105	31,263	32,161	42,639	48,042
Account Receivables	21,478	14,938	14,096	21,736	30,988	31,672	41,186	46,404
Cash and Bank Balance	4,755	5,751	4,729	6,030	10,395	16,899	7,445	8,825
Loans and Advances	11,314	9,161	11,545	14,063	15,392	19,612	20,579	21,595
Curr. Liability & Prov.	21,933	23,017	29,167	30,387	45,749	44,927	52,892	57,797
Creditors	13,664	10,309	12,068	16,314	21,513	22,621	29,471	33,205
Other Current Liabilities	6,200	10,000	14,093	11,396	21,923	18,999	19,949	20,946
Provisions	2,069	2,707	3,006	2,677	2,313	3,307	3,472	3,646
Net Current Assets	34,060	24,181	19,142	38,546	42,288	55,417	58,958	67,070
Appl. of Funds	93,850	91,807	1,01,710	1,24,531	1,36,597	1,46,913	1,52,701	1,62,448

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	21.6	9.1	1.9	21.2	12.2	19.7	34.8	46.8
Cash EPS	32.8	20.8	15.0	36.9	28.0	37.9	53.6	66.9
BV/Share	115.5	112.1	116.3	141.1	144.0	154.0	175.0	208.8
DPS	5.0	3.5	2.0	5.5	5.5	9.0	11.5	13.0
Payout (%)	25.9	50.1	-96.0	23.1	40.4	46.3	35.6	27.9
Valuation (x)								
P/E	73.3	174.5	841.2	74.6	129.8	80.2	45.5	33.8
Cash P/E	48.3	76.0	105.3	42.9	56.5	41.7	29.5	23.7
P/BV	13.7	14.1	13.6	11.2	11.0	10.3	9.0	7.6
EV/Sales	7.9	9.9	11.9	7.3	6.0	5.0	4.4	3.9
EV/EBITDA	37.2	66.2	87.3	38.5	43.5	30.4	23.9	19.1
Dividend Yield (%)	0.3	0.2	0.1	0.3	0.3	0.6	0.7	0.8
FCF per share	-9.0	17.4	0.0	-17.9	0.0	4.1	9.1	41.7
Return Ratios (%)								
RoE	20.1	8.0	1.6	16.5	8.6	13.2	21.2	24.4
RoCE (Post-tax)	13.4	6.6	3.2	10.2	6.2	8.7	12.4	15.1
RoIC	16.3	7.4	3.0	13.7	7.9	11.1	15.4	18.4
Working Capital Ratios								
Fixed Asset Turnover (x)	1.2	0.8	0.6	1.3	1.3	1.5	1.5	1.6
Inventory (Days)	66	79	103	95	88	75	88	88
Debtor (Days)	77	68	81	76	88	74	85	85
Creditor (Days)	49	47	70	57	61	53	61	61
Working Capital (Days)	105	84	83	113	90	90	106	107
Leverage Ratio (x)								
Net Debt/Equity	0.3	0.4	0.3	0.3	0.5	0.5	0.6	0.3

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Operating PBT	15,076	5,912	2,495	12,500	10,320	17,097	23,966	31,086
Depreciation	5,208	5,477	6,122	7,303	7,356	8,482	8,753	9,365
Other income	2,032	1,900	1,686	2,203	1,529	1,865	2,502	3,002
Direct Taxes Paid	-5,748	-2,681	-77	-2,762	-4,246	-5,907	-6,454	-9,298
(Inc)/Dec in WC	-9,724	10,876	4,016	-18,103	623	-6,624	-12,995	-6,732
CF from Operations	6,844	21,485	14,243	1,142	15,581	14,912	15,771	27,423
EO Expense	272	-1,031	-3,062	1,280	458	-123	-1,518	0
CF from Operating incl EO	7,116	20,454	11,180	2,422	16,039	14,789	14,254	27,423
(inc)/dec in FA	-11,326	-12,371	-11,173	-10,750	-16,029	-12,857	-10,000	-8,000
Free Cash Flow	-4,210	8,083	8	-8,328	10	1,932	4,254	19,423
(Pur)/Sale of Investments	-225	-944	-9,890	30	349	7,198	-1,000	-3,000
CF from Investments	-11,551	-13,315	-21,063	-10,720	-15,680	-5,659	-11,000	-11,000
Issue of Shares	-490	-3,519	3,855	3,017	-2,425	-211	85	105
Inc/(Dec) in Debt	10,618	1,055	7,014	10,748	11,978	6,697	-4,000	-6,000
Interest Paid	-1,272	-1,713	-1,077	-1,604	-2,986	-4,912	-3,438	-3,094
Dividend Paid	-2,706	-1,965	-931	-2,561	-2,561	-4,191	-5,355	-6,053
CF from Fin. Activity	6,150	-6,143	8,860	9,599	4,006	-2,616	-12,708	-15,043
Inc/Dec of Cash	1,714	996	-1,023	1,301	4,365	6,514	-9,454	1,380
Add: Beginning Balance	3,041	4,755	5,751	4,729	6,030	10,395	16,899	7,445
Closing Balance	4,755	5,751	4,728	6,030	10,395	16,909	7,445	8,825

E: MOFSL Estimates

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SELL	< - 10%
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