

## Bharat Forge

04 June 2021

### RESULT UPDATE

**Sector:** Auto Ancillary **Rating:** BUY  
**CMP:** Rs 735 **Target Price:** Rs 825

#### Stock Info

Sensex/Nifty	52,100/15,670
Bloomberg	BHFC IN
Equity shares (mn)	466
52-wk High/Low	Rs 758/306
Face value	Rs 2
M-Cap	Rs 350bn/USD 4.8bn
3-m Avg volume	USD 9.9mn

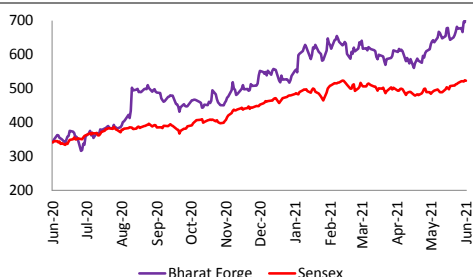
#### Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net Sales	63,363	82,441	102,385
EBITDA	8,617	17,381	22,969
PAT	1,793	9,176	13,502
EPS (Rs)	4	20	29
PE (x)	190.9	37.3	25.3
EV/EBITDA (x)	42.1	20.4	14.9
RoE (%)	3	16	20
RoCE (%)	4	12	16
FCF yield (%)	0.4	2.7	3.0

#### Shareholding pattern (%)

	Mar'21	Dec'20	Sep'20
Promoter	45.8	45.8	45.8
-Pledged	-	-	-
FII	24.9	21.9	21.9
DII	12.5	11.8	11.8
Others	16.8	20.5	20.5

#### Stock Performance (1-year)



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### Robust margin performance, improved revenue visibility

Bharat Forge (BHFC)'s 4QFY21 EBITDA margin at 25.5% (at 65% utilisation) was 100bps/200bps ahead of our/consensus estimates as exports increased sharply. Consequently, NSR at Rs 234/kg was ahead of estimates. Overseas subsidiaries reported best-ever operating margins of 10.8%, up 170bps QoQ. On the earnings call, the management highlighted that the export segment is seeing strong traction along with a recovery in the oil and gas segment. The heavy truck market in Europe and America has seen swift recovery and order volumes remain robust. While the near term order outlook for the domestic CV segment remains weak, BHFC expects a sharp recovery in 2HFY22. The management expects significant growth from new segments such as e-mobility, light-weighting and defence over the medium term and plans to set up a dedicated facility at the Khed Industrial Park in Pune, Maharashtra. The cost rationalisation measures and operating leverage benefits would further drive profitability. We increase our FY22E/23E EBITDA by 10%/12% and upgrade the stock to BUY from Hold with a target price of Rs 825 (16x FY23E EV/EBITDA). Our target multiple is higher than its long-term average as we factor in improved revenue visibility from new segments, especially the defence vertical.

#### Key con-call takeaways

- Domestic business:** Commercial vehicle (CV)/passenger vehicle (PV) segment revenues grew 126%/28% YoY, respectively. While the domestic auto segment witnessed a strong recovery in 4Q, COVID-led regional lockdowns have impacted demand in 1QFY22 and the management expects an improvement in 2HFY22. Industrial segment revenues grew 16% YoY. BHFC has acquired Sanghvi Forging under insolvency proceedings (for Rs 0.8bn); the acquisition is expected to increase the business from industrial segments for the company.
- Export business:** Industrial, CV and PV segment revenues grew 22%, 66% and 48% YoY, respectively. While the CV order book is increasing, industry-wide chip shortage is impacting CV production in Europe and North America; the management expects the issue to resolve in 2H. NA Class 8 truck production is expected to be ~300,000 units for CY21 (growth of ~43% YoY). The company is seeing a pick-up in the construction and mining segments driven by the increased focus on infrastructure across major economies. Oil & gas revenue is also recovering with 4Q revenue at USD 5-6mn vs. negligible QoQ.
- New facility for defence & e-mobility:** The management expects medium-term growth to be primarily driven by the defence & e-mobility segments ([detailed note](#)). It plans to build new capacities specifically for these segments for which it is looking at a ~175-acre land acquisition in the Khed Industrial Park, Pune. The defence facility will encompass expansion for specialty vehicles and testing & assembly plants for allied parts (including those for artillery guns). Maximum outlay towards the same is expected to be Rs 2.4bn over the next 3 years.
- Other growth drivers:** The management also expects its light-weighting business to drive significant growth over the medium term. BHFC's Nellore plant has commenced operations and is seeing strong demand. The company also expects to offer several EV products by the end of the year. It has received an order from the Indian govt for new products in the industrial segment and it will commence manufacturing in the next few months.
- Overseas subsidiaries:** Revenue grew 23% YoY/18% QoQ to Rs 7.3bn; EBITDA margin expanded 1,427bps YoY/173bps QoQ to 10.8%. This is the best-ever operating performance and the management expects to achieve an EBITDA margin of 12% over the next few years.
- Capex & leverage:** The management has guided for a capex (including overseas subsidiaries) of Rs 3bn for FY22E and Rs 2.5bn for FY23E. The overall utilisation rate for the company was ~65% in 4QFY21 (can reach peak revenue of Rs 20bn with existing

capacities). Standalone net debt was lower by ~4% QoQ at Rs 9.4bn, implying a net debt/equity of 0.2x.

**Outlook and valuation:** We estimate BHFC to deliver revenue/EBITDA/PAT CAGRs of 27%/63%/174% between FY21-23E.

#### Exhibit 1: Reported nos vs. Expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	13,073	12,765	2.4	12,014	8.8
EBITDA	3,332	3,127	6.5	2,818	18.2
EBITDA Margin (%)	25.5	24.5	99	23.5	203
Adj PAT	1,804	1,842	(2.1)	1,452	24.3
Adj EPS	3.9	4.0	(2.1)	3.1	24.3

Source: Company, Bloomberg, Systematix Institutional Research

#### Exhibit 2: Quarterly performance

(Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)
<b>Tonnage ('000 kg)</b>	<b>40,173</b>	<b>17,840</b>	<b>40,775</b>	<b>50,943</b>	<b>55,837</b>	<b>39.0</b>	<b>9.6</b>
<b>Net Sales</b>	<b>8,812</b>	<b>4,270</b>	<b>8,815</b>	<b>10,357</b>	<b>13,073</b>	<b>48.4</b>	<b>26.2</b>
- Raw Material	3,249	1,844	3,204	3,831	5,266	62.1	37.5
(% of Net Sales)	36.9	43.2	36.3	37.0	40.3	341	329
- Staff Expenditure	1,189	1,138	1,108	1,102	1,134	(4.6)	2.9
(% of Net Sales)	13.5	26.6	12.6	10.6	8.7	(482)	(197)
- Other Expenditure	2,892	1,270	2,843	3,092	3,342	15.5	8.1
(% of Net Sales)	32.8	29.8	32.3	29.9	25.6	(726)	(429)
Total Expenditure	7,330	4,252	7,155	8,025	9,742	32.9	21.4
<b>EBITDA</b>	<b>1,482</b>	<b>17</b>	<b>1,660</b>	<b>2,333</b>	<b>3,332</b>	<b>124.8</b>	<b>42.8</b>
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>0.4</b>	<b>18.8</b>	<b>22.5</b>	<b>25.5</b>	<b>867</b>	<b>296</b>
Depreciation	847	808	883	964	1,006	18.8	4.4
<b>EBIT</b>	<b>635</b>	<b>-791</b>	<b>777</b>	<b>1,369</b>	<b>2,326</b>	<b>266.2</b>	<b>69.8</b>
Interest	415	299	75	268	137	(67.1)	(49.1)
Other Income	315	420	313	352	320	1.5	(9.3)
Exceptional Items	-1,318	-46	-123	-239	251	(119.0)	(204.9)
<b>PBT</b>	<b>-783</b>	<b>-716</b>	<b>892</b>	<b>1,214</b>	<b>2,760</b>	<b>(452.3)</b>	<b>127.3</b>
Tax	-50	-153	189	287	705	(1,502.3)	145.9
Tax rate (%)	6.4	21.4	21.2	23.6	25.6	1,913	193
<b>Reported PAT</b>	<b>-733</b>	<b>-563</b>	<b>703</b>	<b>927</b>	<b>2,054</b>	<b>(380.3)</b>	<b>121.6</b>
<b>Adjusted PAT</b>	<b>585</b>	<b>-518</b>	<b>826</b>	<b>1,166</b>	<b>1,804</b>	<b>208.2</b>	<b>54.6</b>
Adjusted EPS (Rs)	1.3	-1.1	1.8	2.5	3.9	208.2	54.6
<b>EBITDA/ton</b>	<b>37</b>	<b>1</b>	<b>41</b>	<b>46</b>	<b>60</b>	<b>61.7</b>	<b>30.3</b>
<b>Net ASP (Rs/kg)</b>	<b>219</b>	<b>239</b>	<b>216</b>	<b>203</b>	<b>234</b>	<b>6.7</b>	<b>15.2</b>

Source: Company, Systematix Institutional Research

#### Exhibit 3: Standalone revenue break-up

(Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)
<b>India</b>							
CV	983	330	916	1,657	2,222	126.0	34.1
% contri	25.1	19.7	21.9	31.6	38.6	1,345	693
Industrial	1,773	1,020	2,119	2,243	2,049	15.6	(8.6)
% contri	45.3	60.8	50.5	42.8	35.6	(973)	(725)
PV	542	76	616	778	691	27.5	(11.2)
% contri	13.8	4.5	14.7	14.8	12.0	(185)	(286)
<b>Total</b>	<b>3,916</b>	<b>1,678</b>	<b>4,192</b>	<b>5,240</b>	<b>5,763</b>	<b>47.2</b>	<b>10.0</b>
<b>Exports</b>							
CV	2,388	822	1,648	3,167	3,958	65.7	25.0
% contri	48.8	31.7	35.6	61.9	54.1	537	(773)
Industrial	1,403	1,198	1,787	898	1,715	22.2	91.0
% contri	28.7	46.2	38.7	17.5	23.5	(520)	592
PV	1,105	572	1,188	1,053	1,637	48.1	55.5
% contri	22.6	22.1	25.7	20.6	22.4	(18)	182
<b>Total</b>	<b>4,896</b>	<b>2,592</b>	<b>4,623</b>	<b>5,118</b>	<b>7,310</b>	<b>49.3</b>	<b>42.8</b>

Source: Company, Systematix Institutional Research

**Exhibit 4: Overseas subs financials**

(Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)
Total Income	5,937	6,374	3,493	6,191	7,303	23.0	18.0
EBITDA	-206	204	-334	562	789	(483.0)	40.4
<b>EBITDA Margin (%)</b>	<b>-3.5</b>	<b>3.2</b>	<b>-9.6</b>	<b>9.1</b>	<b>10.8</b>	<b>1,427</b>	<b>173</b>
PBT	-532	-357	-952	-82	287	(153.9)	(450.0)

Source: Company, Systematix Institutional Research

**Exhibit 5: Standalone debt and net debt/equity**

(Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)
Debt	32,435	31,836	36,683	37,589	36,203	11.6	(3.7)
Equity	53,551	53,477	55,380	56,709	59,486	11.1	4.9
Cash	18,821	20,036	24,717	26,374	26,809	42.4	1.6
Net debt	13,614	11,800	11,966	11,215	9,394	(31.0)	(16.2)
<b>D/E</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0</b>	<b>(8)</b>
<b>D/E (Net)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>(38)</b>	<b>(20)</b>

Source: Company, Systematix Institutional Research

**Exhibit 6: Segment-wise standalone revenue break-up and growth trend**

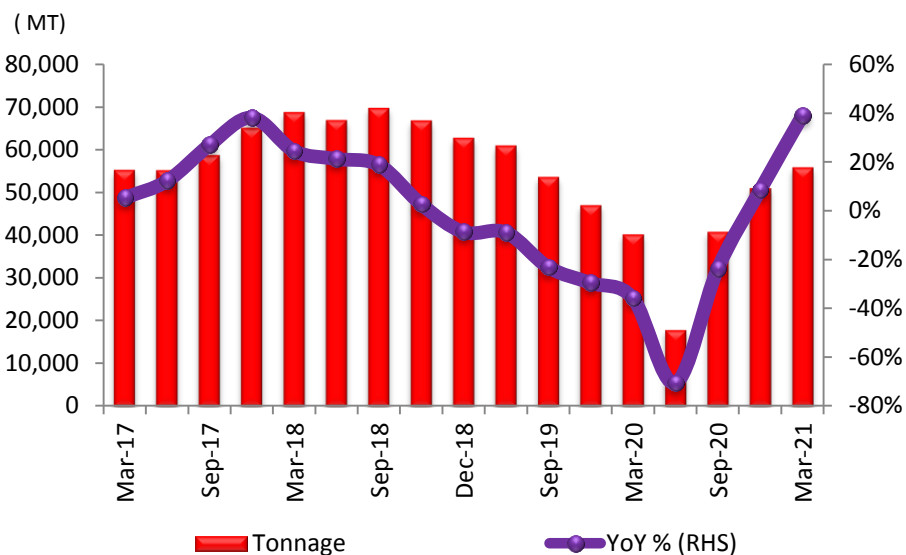
(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
India CV	5,070	6,342	7,462	8,050	10,380	10,988	5,182	5,110	7,410	9,632
India PV	2,002	2,109	1,653	1,476	2,043	2,361	2,263	2,161	2,485	2,932
India non auto	5,606	6,238	6,304	7,148	7,895	10,107	8,058	7,446	9,680	11,809
India other OI	2,832	3,585	4,853	2,557	3,131	4,486	3,634	2,156	3,234	4,043
New AP plant									850	1,350
<b>Total India</b>	<b>15,510</b>	<b>18,274</b>	<b>20,272</b>	<b>19,231</b>	<b>23,449</b>	<b>27,942</b>	<b>19,137</b>	<b>16,873</b>	<b>22,808</b>	<b>28,417</b>
Export CV	10,861	12,936	14,205	9,883	12,807	15,816	12,702	9,591	13,907	17,106
Export PV	401	1,048	2,002	2,284	2,803	4,513	5,047	4,496	5,490	6,313
Export non auto	7,220	13,223	8,778	7,251	14,102	16,929	8,753	5,555	7,222	10,110
<b>Total exports</b>	<b>18,482</b>	<b>27,207</b>	<b>24,985</b>	<b>19,418</b>	<b>29,712</b>	<b>37,258</b>	<b>26,502</b>	<b>19,642</b>	<b>26,618</b>	<b>33,529</b>
<b>Total sales</b>	<b>33,992</b>	<b>45,481</b>	<b>45,257</b>	<b>38,649</b>	<b>53,161</b>	<b>65,200</b>	<b>45,639</b>	<b>36,515</b>	<b>50,277</b>	<b>63,296</b>
<b>Growth (%)</b>										
India CV	-12%	25%	18%	8%	29%	6%	-53%	-5%	45%	30%
India PV	-14%	5%	-22%	-11%	38%	16%	-4%	0%	15%	18%
India non auto	10%	11%	1%	13%	10%	28%	-20%	-5%	30%	22%
India other operating income	14%	27%	35%	-47%	22%	43%	-19%	-40%	50%	25%
<b>Total India</b>	<b>-1%</b>	<b>18%</b>	<b>11%</b>	<b>-5%</b>	<b>22%</b>	<b>19%</b>	<b>-32%</b>	<b>-12%</b>	<b>35%</b>	<b>25%</b>
Export CV	19%	19%	10%	-30%	30%	23%	-20%	-32%	45%	23%
Export PV	5%	161%	91%	14%	23%	61%	12%	-14%	22%	15%
Export non auto	13%	83%	-34%	-17%	94%	20%	-48%	-40%	30%	40%
<b>Total exports</b>	<b>16%</b>	<b>47%</b>	<b>-8%</b>	<b>-22%</b>	<b>53%</b>	<b>25%</b>	<b>-29%</b>	<b>-26%</b>	<b>36%</b>	<b>26%</b>
<b>Total sales</b>	<b>8%</b>	<b>34%</b>	<b>0%</b>	<b>-15%</b>	<b>38%</b>	<b>23%</b>	<b>-30%</b>	<b>-20%</b>	<b>38%</b>	<b>26%</b>

Source: Company, Systematix Institutional Research

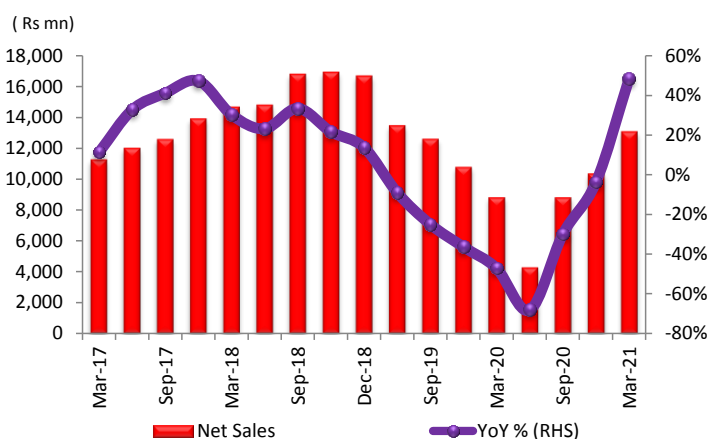
**Exhibit 7: Various artillery programmes**

Various artillery programmes	No./ units	Rs bn
Wheeled gun (155/52 caliber)	850	128
Towed gun	1,600	240
Conversion of old Russian 130 mm gun to 155 mm gun	350	53
Mounted guns (155/52)	800	120
Ultra light weight Howitzer gun	400	60
<b>Total</b>	<b>4,000</b>	<b>600</b>

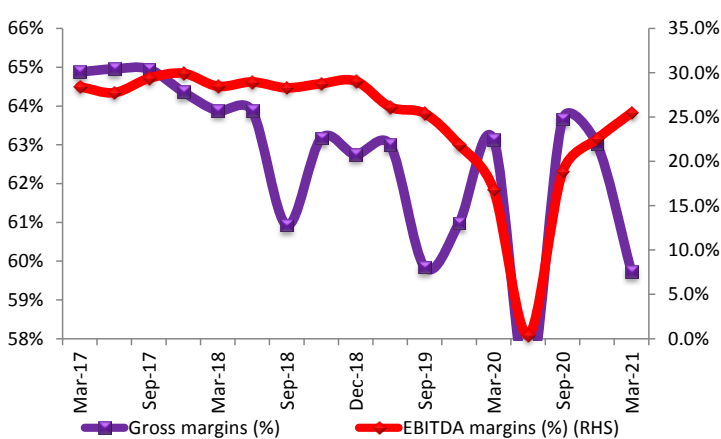
Source: Industry, Systematix Institutional Research

**Exhibit 8: BHFC tonnage and growth trend**

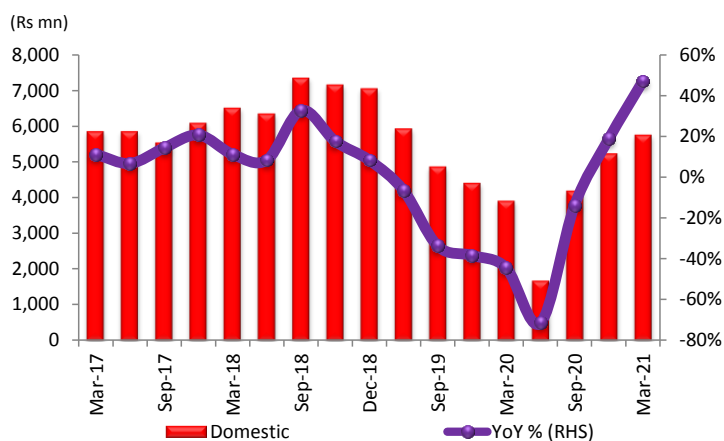
Source: Company, Systematix Institutional Research

**Exhibit 9: Net sales and growth trend**

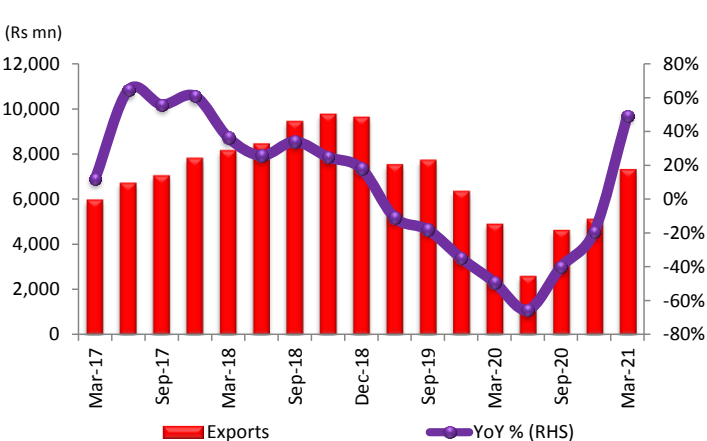
Source: Company, Systematix Institutional Research

**Exhibit 10: Gross and EBITDA margin trend**

Source: Company, Systematix Institutional Research

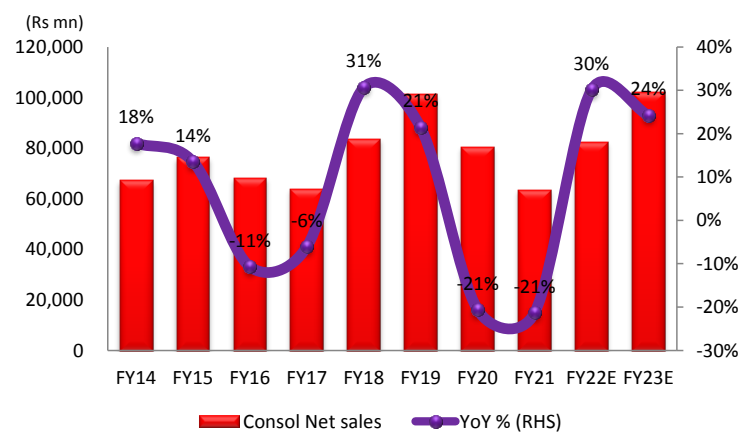
**Exhibit 11: Domestic revenue and growth trend**

Source: Company, Systematix Institutional Research

**Exhibit 12: Export revenue and growth trend**

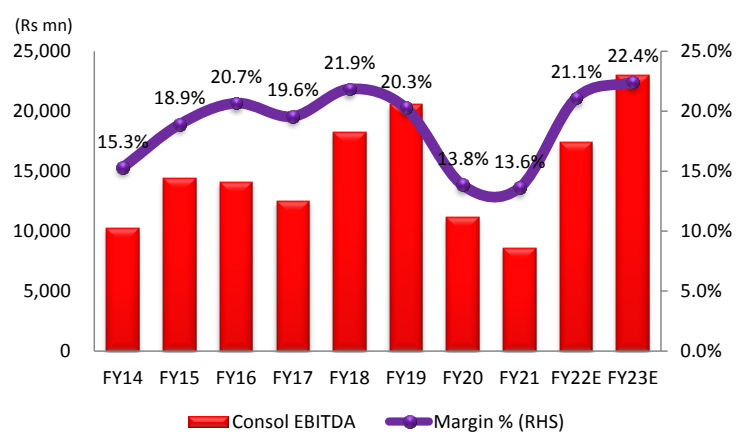
Source: Company, Systematix Institutional Research

Exhibit 13: Consolidated net sales and growth trend



Source: Company, Systematix Institutional Research

Exhibit 14: Consolidated EBITDA and margin trend



Source: Company, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>101,458</b>	<b>80,558</b>	<b>63,363</b>	<b>82,441</b>	<b>102,385</b>
Growth, %	22	(21)	(21)	30	24
RM expenses	(42,144)	(35,765)	(26,342)	(31,860)	(40,108)
Employee expenses	(12,463)	(11,955)	(10,711)	(11,757)	(12,961)
Other expenses	(26,295)	(21,691)	(17,693)	(21,444)	(26,347)
<b>EBITDA</b>	<b>20,556</b>	<b>11,147</b>	<b>8,617</b>	<b>17,381</b>	<b>22,969</b>
Growth, %	13	(46)	(23)	102	32
Margin, %	20	14	14	21	22
Depreciation	(5,208)	(5,477)	(6,122)	(6,291)	(6,585)
<b>EBIT</b>	<b>15,348</b>	<b>5,670</b>	<b>2,496</b>	<b>11,091</b>	<b>16,384</b>
Growth, %	12	(63)	(56)	344	48
Margin, %	15	7	4	13	16
Interest paid	(1,272)	(1,713)	(1,077)	(1,158)	(1,094)
Other Income	2,028	1,879	1,689	2,014	2,270
Non-recurring Items	0	(789)	(3,062)	0	0
<b>Pre-tax profit</b>	<b>16,104</b>	<b>5,835</b>	<b>3,107</b>	<b>11,947</b>	<b>17,560</b>
Tax provided	(5,664)	(1,125)	(1,015)	(2,771)	(4,058)
<b>Profit after tax</b>	<b>10,440</b>	<b>4,711</b>	<b>2,092</b>	<b>9,176</b>	<b>13,502</b>
Others (Minorities, Associates)	-	-	-	-	-
<b>Net Profit</b>	<b>10,326</b>	<b>3,492</b>	<b>(1,270)</b>	<b>9,176</b>	<b>13,502</b>
Growth, %	18	(66)	(136)	(823)	47
<b>Net Profit (adjusted)</b>	<b>10,326</b>	<b>4,282</b>	<b>1,793</b>	<b>9,176</b>	<b>13,502</b>

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	4,754	5,751	4,729	13,157	22,332
Marketable securities	14,093	14,319	24,759	23,405	22,422
Debtors	21,478	14,938	14,096	16,320	19,776
Inventory	18,447	17,347	17,939	17,338	20,489
Loans & advances	208	557	281	309	340
Other current assets	11,749	9,408	12,165	13,382	14,720
Total current assets	56,636	48,001	49,210	60,507	77,657
Investments	1,143	1,861	1,309	1,701	1,625
Gross fixed assets	55,517	64,772	78,373	81,873	86,123
Less: Depreciation	(19,275)	(24,752)	(30,874)	(37,164)	(43,749)
Add: Capital WIP	8,307	11,427	9,001	9,001	9,001
Net fixed assets	36,242	40,020	47,500	44,709	42,374
<b>Total assets</b>	<b>116,421</b>	<b>115,628</b>	<b>131,778</b>	<b>139,322</b>	<b>153,079</b>
Current liabilities	19,864	15,612	22,005	22,967	26,543
Provisions	2,069	2,707	3,006	3,156	3,314
Total current liabilities	21,933	18,319	25,011	26,123	29,857
Debt	37,728	43,481	49,954	48,140	45,592
Total liabilities	59,661	61,800	74,964	74,263	75,449
Paid-up capital	931	931	931	931	931
Reserves & surplus	52,829	51,266	53,220	61,465	74,036
Shareholders' equity	54,058	52,517	54,468	62,713	75,284
<b>Total equity &amp; liabilities</b>	<b>116,421</b>	<b>115,628</b>	<b>131,778</b>	<b>139,322</b>	<b>153,079</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Pre-tax profit</b>	<b>16,104</b>	<b>5,046</b>	<b>-441</b>	<b>11,947</b>	<b>17,560</b>
Depreciation	5,208	5,477	6,122	6,291	6,585
Chg in working capital	(9,239)	6,018	4,460	(1,755)	(4,242)
Total tax paid	(5,664)	(1,125)	(1,015)	(2,771)	(4,058)
<b>CFO</b>	<b>5,183</b>	<b>15,220</b>	<b>10,200</b>	<b>12,855</b>	<b>14,670</b>
Capital expenditure	(10,996)	(9,571)	(8,905)	(3,500)	(4,250)
Chg in investments	(556)	(556)	(555)	(555)	(554)
Chg in marketable securities	331	(388)	(9,332)	1,517	1,613
<b>CFI</b>	<b>(9,193)</b>	<b>(11,322)</b>	<b>(15,111)</b>	<b>(523)</b>	<b>(922)</b>
Free cash flow	(6,369)	5,092	740	8,800	9,866
Debt raised/(repaid)	9,492	1,168	7,031	(1,814)	(2,548)
Dividend (incl. tax)	(2,497)	(2,355)	(2,065)	(931)	(931)
<b>CFF</b>	<b>5,723</b>	<b>(2,900)</b>	<b>3,888</b>	<b>(3,903)</b>	<b>(4,573)</b>
<b>Net chg in cash</b>	<b>1,713</b>	<b>997</b>	<b>(1,022)</b>	<b>8,429</b>	<b>9,175</b>
Opening cash balance	3,041	4,754	5,751	4,729	13,157
<b>Closing cash balance</b>	<b>4,754</b>	<b>5,751</b>	<b>4,729</b>	<b>13,157</b>	<b>22,332</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	22.2	9.2	3.8	19.7	29.0
PER (x)	33.1	79.9	190.9	37.3	25.3
Price/Book (x)	6.4	6.6	6.3	5.5	4.6
EV/EBITDA (x)	17.6	32.8	42.1	20.4	14.9
EV/Net sales (x)	3.6	4.6	5.7	4.3	3.4
RoE (%)	21	8	3	16	20
RoCE (%)	20	8	4	12	16
Fixed Asset turnover (x)	1.8	1.2	0.8	1.0	1.2
Dividend Yield (%)	0.8	0.3	0.3	0.3	0.3
Receivable (days)	78	69	82	73	71
Inventory (days)	83	91	120	97	94
Payable (days)	62	54	80	68	67
Revenue Growth (%)	22	(21)	(21)	30	24
EBITDA Growth (%)	13	(46)	(23)	102	32
EPS Growth, %	7	(59)	(58)	412	47
Net D/E ratio (x)	0.4	0.4	0.4	0.2	0.0

Source: Company, Systematix Institutional Research

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