

Bharat Forge Ltd

Navigating challenges while uncertainty prevail

Diversifying revenue streams offer cushion; Downgrade to ADD

Adj. for fx and tariff impact, EBITDA in-line - Bharat Forge (BHFC) 1QFY26 results in-line as SA revenues declined 10% YoY (-2.7% QoQ) at Rs21.5b (est Rs21.2b, cons ~Rs22.8). Tonnage degrew 8% YoY/ QoQ each at ~61.9k tons (est ~65.3k tons) while ASP degrew 1.8%/+5.9% YoY/QoQ at Rs340.3k/ton (est Rs324.6k/ton). Operating performance was in-line adj. for fx loss (Rs160m) and tariff impact (Rs140m). Overseas subs performance improved with Europe EBITDAM at 3.1% (vs 1.2% in QoQ and 3.5% YoY), US EBITDAM at 6.1% (vs 1.3% QoQ and loss of USD235m YoY) whereas overall EBITDA for overseas subs at Rs558m (vs Rs153m QoQ and Rs135m YoY).

Defense business ramp-up expected despite muted 1Q - BHFC reported order wins of Rs8.47b (vs Rs43.4b in 4Q) including defence wins of Rs2.7b in 1Q (vs Rs69.6b in FY25), leading to executable order book of Rs94.6b (vs Rs94.2b as of Mar'25, Rs57b as of Dec'24 and Rs51.92b as of Mar'24). Co indicated ~Rs14b order for CQB carbines are in final stages. Going forward, the focus is to have high domestic content across defence sub segments (Naval, land, Air defence systems). 1QFY26 defence revenues muted at Rs2.6b (-7% YoY) the management indicated growth for FY26E.

Near term base outlook remain uncertain - The management indicated muted 2QFY26 while improvement in 2HFY26E, led by. 1) Exports - given the recent tariff by the US and changes to emission regulation in NA, outlook for US export is cautious for rest of FY26. 2) Aerospace vertical to maintain +20% YoY in FY26 with limited US exposure. 3) AAM consolidation from 2QFY26 to contribute ~Rs10b revenues in FY26. 4) JSA - 1QFY26 is seasonally weak while the same is aggravated by tariff impact and pull back of renewables in the US. Expect positive revenue momentum in 2HFY26.

EPS cuts to factor in prevailing uncertainty - We believe, BHFC is better placed than its previous cycles as it expected to benefit from 1) defence orders ramp up and pick-up in domestic/exports PVs, 2) positive outlook for industrials (with strong growth potential in Aerospace). To factor in for prevailing macro uncertainty, we cut FY26/27E EPS by ~11.5/5%. While we expect sharp defence ramp-up in rest of FY26, tariff challenges to aggravate weakness in auto and industrial vertical. The recent correction in the stock though partially factors in near-term challenges. We downgrade the stock to ADD with our SOTP based TP at Rs1,266 (v/s Rs1,351 earlier). BHFC trades at 45x/32x of FY26/27 consol EPS (v/s ~42x 10-year LPA), supporting upside and diversifying profit pools. Demand challenges to persist in near-mid-term, we believe.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	21,047	21,191	22,796	(0.7)	(7.7)	EBITDA Margins resilient despite headwinds.
EBITDA	6,018	6,001	6,095	0.3	(1.3)	
EBITDA margins %	28.6	28.3	26.7	30bp	190bp	
Adjusted PAT	3,525	3,425	3,464	2.9	1.8	

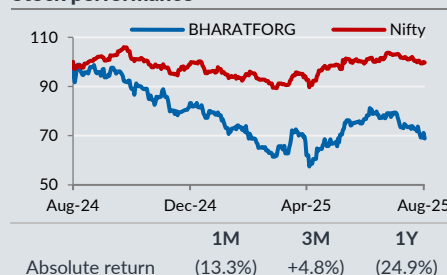
Source: Company, YES Sec

Recommendation	: ADD
Current price	: Rs 1,139
Target Price	: Rs 1,287
Potential Return	: +13%

Stock data (as on Aug 06, 2025)

Nifty	24,574
52 Week h/l (Rs)	1,655 / 919
Market cap (Rs/USD mn)	554,822 / 6,330
Outstanding Shares (mn)	478
6m Avg t/o (Rs mn):	1,568
Div yield (%):	0.7
Bloomberg code:	BHFC IN
NSE code:	BHARATFORG

Stock performance



Shareholding pattern (As of Jun'25)

Promoter	44.1%
FII+DII	46.4%
Others	9.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	1,287	1,351

Δ in earnings estimates

	FY26E	FY27E
EPS (New)	25.2	35.6
EPS (Old)	28.5	37.6
% change	(11.5%)	(5.3%)

Financial Summary- Consolidated

Y/E Mar (Rs b)	FY25	FY26E	FY27E
Sales	151.2	166.4	189.2
EBITDA	26.9	28.3	33.1
Adj. PAT	10.4	12.0	17.0
EPS (INR)	21.8	25.2	35.6
EPS Gr. (%)	4.3	15.6	41.2
BV/Sh. (INR)	193.5	209.2	234.3
RoE (%)	12.7	12.5	16.0
RoCE (%)	8.2	8.8	11.5
Payout (%)	44.3	38.5	29.9
P/E (x)	52.2	45.2	32.0
P/BV (x)	5.9	5.4	4.9
EV/EBITDA (x)	21.7	20.5	17.3
EV/Sales (x)	3.9	3.5	3.0

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Exhibit 2: Quarterly snapshot - Standalone

Y/E Mar (Rs mn)	Q1FY26	Q1FY25	YoY chg	Q4FY25	QoQ chg	FY25	FY24	YoY chg
Net Revenues	21,047	23,381	(10.0)	21,630	(2.7)	88,437	89,686	(1.4)
Raw Materials	8,156	9,777	(16.6)	8,576	(4.9)	35,922	38,301	(6.2)
% of Net Sales	38.8%	41.8%		39.6%		40.6%	42.7%	
Personnel	1,696	1,626	4.3	1,539	10.2	6,366	6,014	5.8
% of Net Sales	8.1%	7.0%		7.1%		7.2%	6.7%	
Manufacturing & Other Exp	5,177	5,404	(4.2)	5,228	(1.0)	20,919	20,489	2.1
% of Net Sales	24.6%	23.1%		24.2%		23.7%	22.8%	
Total Expenditure	15,029	16,807	(10.6)	15,344	(2.0)	63,206	64,805	(2.5)
EBITDA	6,018	6,574	(8.5)	6,287	(4.3)	25,231	24,882	1.4
EBITDA Margin (%)	28.6%	28.1%		29.1%		28.5%	27.7%	
Depreciation	1,125	1,094	2.8	1,122	0.2	4,404	4,420	(0.4)
EBIT	4,893	5,479	(10.7)	5,165	(5.3)	20,827	20,461	1.8
Interest Expenses	522	702	(25.6)	588	(11.2)	2,498	2,874	(13.1)
Non-operating income	422	446	(5.4)	481	(12.2)	1,589	1,623	(2.2)
Extraordinary Exp (inc) / Forex loss (gain)	(160)	(1,516)		(323)		(1,730)	(240)	
PBT	4,633	3,708	24.9	4,735	(2.2)	18,188	18,970	(4.1)
Tax-Total	1,108	1,014	9.3	1,278	(13.4)	4,965	4,703	5.6
Tax Rate (%) - Total	23.9%	27.3%		27.0%		27.3%	24.8%	
Reported PAT	3,525	2,694	30.8	3,456	2.0	13,223	14,268	(7.3)
Adj. PAT	3,525	3,753	(6.1)	3,604	(2.2)	14,338	14,385	(0.3)
PAT Margin	16.7%	16.1%		16.7%		16.2%	16.0%	

Source- Company, YES Sec

Exhibit 3: Key Operating Metrics

Y/e Mar (Rs mn)	Q1FY26	Q1FY25	YoY chg	Q4FY25	QoQ chg	FY25	FY24	YoY chg
Volume (MT)	61,857	67,501	(8.4)	67,309	(8.1)	260,415	271,678	(4.1)
Realisation / ton (Rs)	340,254	346,379	(1.8)	321,358	5.9	339,601	330,120	2.9
Gross Profit / ton (Rs)	208,396	201,531	3.4	193,946	7.5	201,661	189,141	6.6
Staff Cost / ton (Rs)	27,748	23,959	15.8	22,869	21.3	24,446	22,138	10.4
Other Mfg cost / ton (Rs)	72,935	77,105	(5.4)	77,675	(6.1)	80,328	75,418	6.5
EBITDA / ton (Rs)	91,153	95,958	(5.0)	93,402	(2.4)	96,888	91,585	5.8
Adj. Profit / ton (Rs)	49,917	52,062	(4.1)	53,547	(6.8)	55,059	52,948	4.0

Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Outlook – Expect 2QFY26 also to be muted and improvement in 2HFY26E**
 - **Exports** - Given the recent tariff by the US and changes to emission regulation in North America, outlook for US export is cautious for rest of FY26. Overall **2QFY26 looks weaker while 2HFY26 expected to be better than 1HFY26**.
 - **Aerospace vertical to maintain +20% YoY in FY26** with limited US exposure.
 - **AAM consolidation from 2QFY26 to contribute ~Rs10b** revenues in FY26. See large opportunity in both on and off highway.
 - **JSA** - 1QFY26 is seasonally weak while the same is aggravated by tariff impact and pull back of renewables in the US. Expect positive momentum in 2HFY26.
 - **Steel Europe** – 6m timelines for restructuring envisaged for Europe steel facilities.
 - **Construction and mining** will see growth improvement in 2HFY26.
- **New order wins in 1QFY26** – overall wins of Rs8.47b (vs Rs43.3b in 4QFY25, Rs8.3b in 3Q, Rs12.1b in 2Q and Rs9.8b in 1Q).
 - **Standalone** - In 1QFY26, the Indian operations have secured new orders worth ~Rs5.78b (vs ~Rs9.3b in 4QFY25, Rs7.33b in 3Q, Rs5.68b in 2Q, Rs2.05b in 1Q, ~Rs13.5b in FY24) across automotive & industrial applications. FY25 order wins at Rs16.85b and JSA of Rs2.45b.
 - **Defense** - New orders worth Rs2.69b (vs Rs34.2b in 4Q, Rs970m in 3Q, Rs6.42b in 2Q, Rs7.75b in 1Q). The executable order book stands at Rs94.6b (vs Rs94.2b in 4Q, Rs57.06b in 3Q, Rs59.05b in 2Q, Rs54b in 1QFY25, ~Rs51.92b as of FY24) over 3-4 years. **FY25 order wins at ~Rs50b**.
 - **Expect to add another ~Rs14b** order for CQB carbines. The order is combination from domestic and exports (largely domestic). Focus is to have high domestic content across defence sub segments (Naval, land, Air defence systems)
 - JSA order at ~Rs1.49b in 1QFY26.
- **Segmental performance** – exports remained muted led by prevailing challenges
 - **Domestic** - 1) **CV (-1.7% YoY)** - Muted revenues led by market softness & seasonality. 2) **PV (+19% YoY)** - new business wins and higher volumes at some of our Key OEM customers.
 - **Exports** - 1) **CV (-15.4% YoY)** - Exports to Europe saw some revival while North American CV revenues saw a decline due to pause to the emission norm change and the ongoing trade policy flux in US. 2) **PV (+4.7% YoY)** - benign performance driven partly by our diversification efforts beyond North America. 3) **Industrial (-7.1% YoY)** - Weak performance driven by slower growth in HHP Engines, construction Mining and seasonality impact in the Aerospace business.
 - **E mobility** revenues increased Rs636m (vs Rs68m QoQ).
- **Tariff impact of Rs140m** part of financials in 1QFY26. Implementation of recent tariff announcement will be from 7th Aug. 2025.
- **Overseas** - US Aluminum did well with increased utilization to ~70% for phase 1 volumes, leading to EBITDA improvement QoQ.
- **US exposure** out of overall India manufacturing at ~1/3rd including all the verticals.
- **Capex** – not looking at new facility outside India for now.
- **KSSL revenues expected to grow in FY26 YoY despite a dip in revenues in 1QFY26**. New order will be catered through KSSL while all the existing orders from BHFC.

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- **SMT** – have electronics content as part of business in defence, EV and other electronics segment and SMT is backward integrated. See opportunity in electronics components and sub systems for India market. Have applied for PLI as well.
- **Electronics and server opportunity to fructify in revenues from 2HFY26** – expect electronics to provide huge growth opportunity and its share to improve both in automotive and industrial.
 - Co is pursuing import substitute/niche opportunities for domestic manufacturing.
 - Will utilize capacities of KTPL (SMT lines) and production expected to begin from 2HFY26E.
 - Servers TAM is 20k-75k per annum. Will start small and build capability for the same in niche applications

ANALYST VIEW & INVESTMENT THESIS

Broadened revenue and profit pool as de-risking underway – BHFC has broadened its revenue stream by entering new segments (non-Auto) and markets across the globe, resulting in a decline in the share of the Auto business to ~56% in FY25 from ~80% in FY07. It has increased value additions by focusing on machined components, whose contribution grew ~50%, boosting realizations and margin. After having invested for over 10 years, it is now seeing meaningful traction in the defense business. It is also ramping up the AI mix in its overseas subsidiaries. Further, it has set up a dedicated team to work on advanced EV components, which it targets to materially ramp up in a couple of years. These diversification initiatives have helped reduce cyclicity in BHFC revenues over the last few years.

New verticals in industrial offer huge growth headway – BHFC sees a tremendous opportunity in the industrial space (renewable, offhighway, and others), and it has invested in expanding its capacities and capabilities through acquisitions in the last 1.5 years. JS Auto Cast has scaled up well to revenues of Rs6.9b and margins of ~14% in FY25, with expected to maintain the momentum. While aerospace has posted strong growth and now contributes to 24% of non-auto exports in 4Q and to 14% in FY25. BHFC expects the momentum in Aerospace to continue over the next 2-3 years as its new ring mill and machining facilities for Aerospace SOP in 2027.

Overseas subs show a sharp improvement but remain a drag – While the performance of BHFC's overseas subsidiaries has improved in the last couple of quarters, they continue to bleed, with the European subsidiary posting FY25 PBT loss of ~Rs2.67b (from loss of Rs2.1b in FY24) and its US subsidiary posting loss of Rs1.9b (from loss of Rs2.4b in FY24). Overseas subsidiaries remain a drag on BHFC's standalone performance and have been the key concern. The EV subsidiary, KPTL, is also now dragging down BHFC's performance with a loss of Rs933m in FY25. This subsidiary is likely to take at least a couple of years to break even, in our view.

EPS cuts to factor in for prevailing uncertainty – We believe, BHFC is better placed than its previous cycles as it expected to benefit from 1) defence orders ramp up and pick-up in domestic/exports PVs, 2) positive outlook for industrials (with strong growth potential in Aerospace). To factor in for prevailing macro uncertainty, we cut FY26/27E EPS by ~11.5/5%. While we expect sharp defence ramp-up in rest of FY26, tariff challenges to aggravate weakness in auto and industrial vertical. The recent correction in the stock though partially factors in near-term challenges. We downgrade the stock to ADD with our SOTP based TP at Rs1,266 (v/s Rs1,351 earlier). BHFC trades at 45x/32x of FY26/27 consol EPS (v/s ~42x 10-year LPA), supporting upside and diversifying profit pools. Demand challenges to persist in near-mid-term, we believe.

Exhibit 4: Key monitorable

What to Watch	Why it Matters	Timeline
Industrial ramp-up	Margin accretive, volume addition	1.5-2 years
Improvement in foreign subs	EPS dilutive	6-12 months
Key RM prices	High sensitivity to gross margins	Immediate

Source: Company, YES Sec

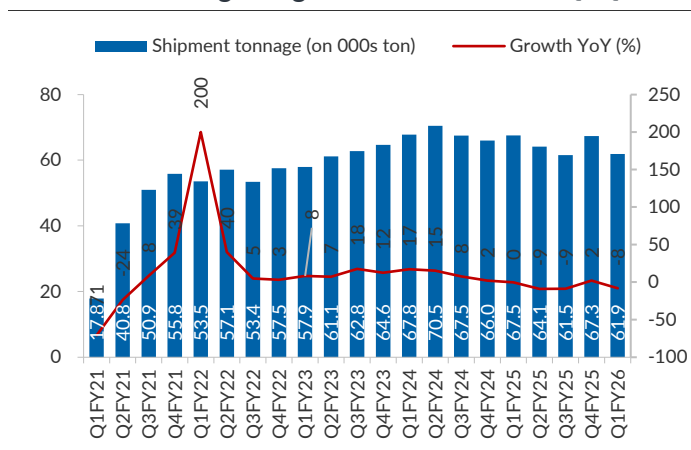
Exhibit 5: Valuation and key ratios

Valuation (x)	FY25	FY26E	FY27E	Average (10y LPA)
P/E	52.2	45.2	32.0	46.8
P/BV	5.9	5.4	4.9	5.2
EV/Sales	3.9	3.5	3.0	4.5
EV/EBITDA	21.7	20.5	17.3	27.0
RoCE (%)	8.2	8.8	11.5	8.7

Source: Company, YES Sec

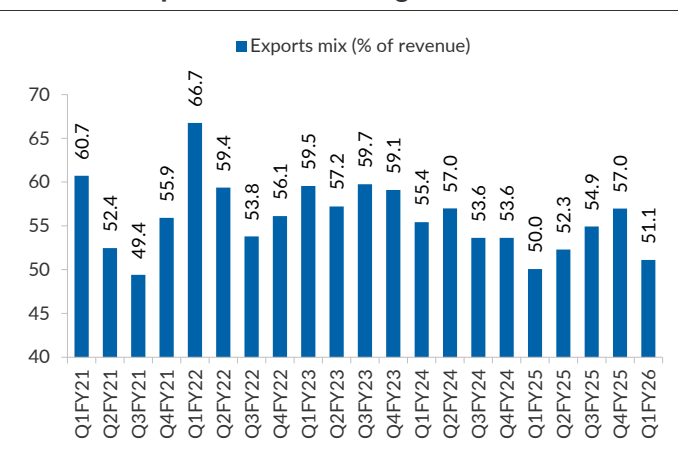
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Exhibit 6: Tonnage de-grew 8.4%/8.1% YoY/QoQ



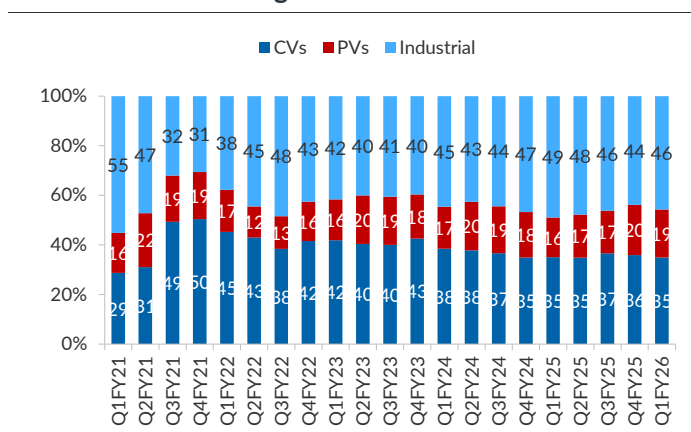
Source: Company, YES Sec

Exhibit 7: Exports revenues mix grew YoY to ~51%



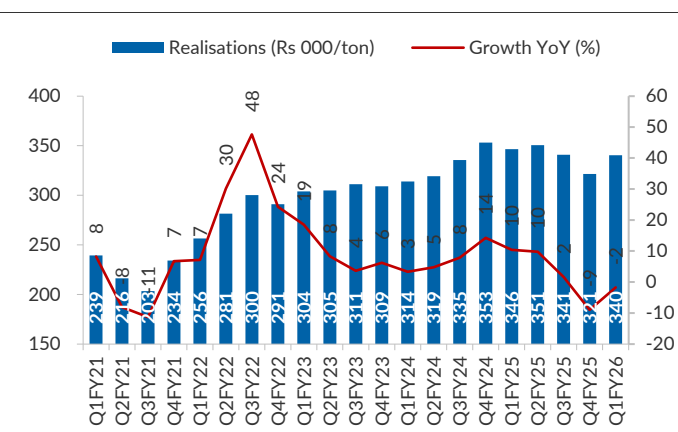
Source: Company, YES Sec

Exhibit 8: Trend in segmental revenue mix



Source: Company, YES Sec

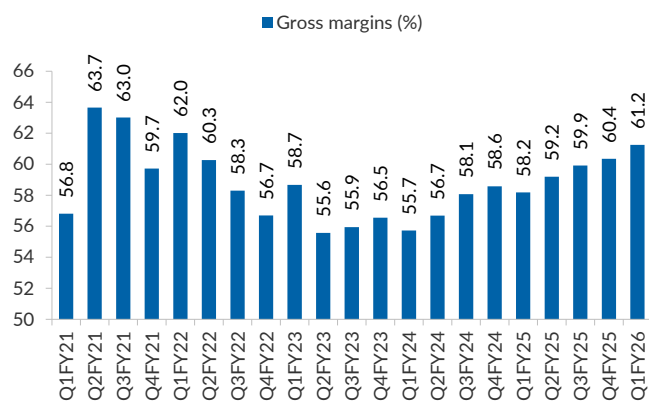
Exhibit 9: S/A ASPs declined 2% YoY at ~Rs340.3k/ton



Source: Company, YES Sec

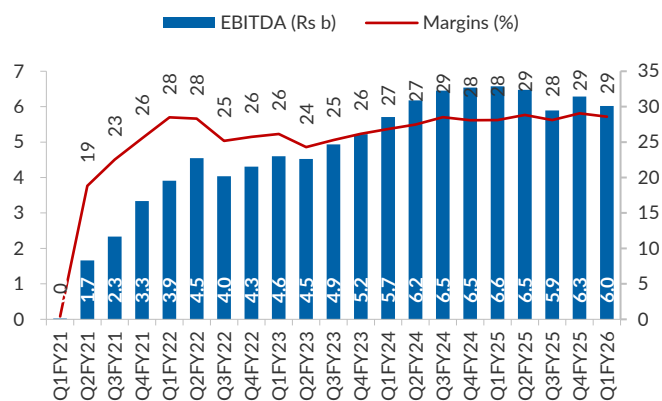
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Exhibit 10: GM expanded ~310bps YoY at 61.2%



Source: Company, YES Sec

Exhibit 11: Margin expanded ~50bp YoY at 28.6%



Source: Company, YES Sec

CONSOLIDATED FINANCIALS

Exhibit 12: Balance Sheet

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	931	931	931	956	956	956
Total Reserves	64,775	66,124	70,771	91,577	99,083	111,069
Net Worth	65,707	67,055	71,702	92,533	100,039	112,026
Minority Interest	561	361	(49)	(328)	(360)	(396)
Deferred Liabilities	1,718	658	39	(703)	(703)	(703)
Total Loans	59,716	73,132	79,475	66,983	64,983	62,983
Capital Employed	127,702	141,206	151,167	158,485	163,958	173,909
Gross Block	81,923	101,377	110,200	122,434	140,188	145,688
Less: Accum. Deprn.	33,226	39,723	46,965	56,383	65,197	74,733
Net Fixed Assets	48,697	61,654	63,235	66,051	74,991	70,955
Capital WIP	11,248	6,964	9,769	17,253	5,000	5,000
Total Investments	26,040	25,691	18,493	20,909	22,909	24,909
Curr. Assets, Loans & Adv.	68,933	88,038	100,344	94,768	106,267	124,455
Inventory	27,105	31,263	32,161	35,784	39,376	44,777
Account Receivables	21,736	30,988	31,769	29,132	31,913	36,291
Cash and Bank Balance	6,030	10,395	16,899	12,914	15,830	21,613
Loans and Advances	14,062	15,392	19,514	16,939	19,148	21,774
Curr. Liability & Prov.	27,216	41,140	40,672	40,497	45,208	51,409
Creditors	16,314	21,513	22,621	23,442	26,442	30,069
Other Current Liabilities	8,226	17,314	14,744	12,916	14,213	16,162
Provisions	2,677	2,313	3,307	4,138	4,553	5,178
Net Current Assets	41,717	46,897	59,671	54,272	61,058	73,045
Appl. of Funds	127,702	141,206	151,167	158,485	163,958	173,909

Source: Company, YES Sec

Bharat Forge Ltd (BHFC)

Exhibit 13: Income statement

vY/E March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Sales	104,611	129,103	156,821	151,228	166,405	189,230
Change (%)	65.1	23.4	21.5	(3.6)	10.0	13.7
EBITDA	20,159	17,675	25,579	26,939	28,330	33,097
Margin (%)	19.3	13.7	16.3	17.8	17.0	17.5
Depreciation	7,303	7,356	8,482	8,736	8,814	9,536
EBIT	12,856	10,319	17,097	18,203	19,517	23,561
Int. and Finance Charges	1,604	2,986	4,912	4,175	3,899	3,589
Other Income - Rec.	1,959	1,729	2,274	2,138	2,532	2,404
Share of profit	(330)	(334)	53			
PBT bef. EO Exp.	13,211	8,727	14,513	16,166	18,149	22,375
EO Expense/(Income)	(924)	458	123	1,571	-	-
PBT after EO Exp.	14,135	9,185	14,636	14,595	18,149	22,375
Current Tax	3,035	3,186	5,288	5,426	6,352	5,594
Deferred Tax	-	-	-	-	-	-
Tax Rate (%)	21	35	36	37	35	25
Reported PAT	11,101	6,000	9,348	9,170	11,797	16,782
PAT Adj for EO items	10,375	5,701	9,269	10,157	11,797	16,782
Change (%)	329.6	(45.1)	62.6	9.6	16.1	42.3
Margin (%)	9.9	4.4	5.9	6.7	7.1	8.9
Less: Minority Interest	283	134	(464)	(267)	(251)	(226)
Net Profit	10,092	5,566	9,733	10,423	12,048	17,007

Source: Company, YES Sec

Exhibit 14: Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E
Operating PBT	14,135	8,604	14,337	14,595	19,517	23,561
Depreciation	7,303	7,356	8,482	8,736	8,814	9,536
Other income	(1,510)	1,979	3,370	5,710	2,750	2,593
Direct Taxes Paid	(3,525)	(4,172)	(5,185)	(6,050)	(6,352)	(5,594)
(Inc)/Dec in WC	(12,269)	(363)	(4,236)	(3,457)	(3,870)	(6,204)
CF from Operations	4,134	13,403	16,767	19,534	20,858	23,893
CF from Operating incl EO	5,058	12,945	16,644	17,963	20,858	23,893
(inc)/dec in FA	(9,646)	(9,699)	(15,003)	(14,439)	(5,500)	(5,500)
Free Cash Flow	(4,588)	3,246	1,641	3,524	15,358	18,393
(Pur)/Sale of Investments	2,746	(7,015)	8,336	(5,204)	(2,000)	(2,000)
CF from Investments	(6,901)	(16,713)	(6,667)	(19,643)	(7,500)	(7,500)
Inc/(Dec) in Debt	6,517	8,443	6,669	3,253	(2,000)	(2,000)
Interest Paid	(1,444)	(2,387)	(4,896)	(4,729)	(3,899)	(3,589)
Dividend Paid	(1,642)	(3,253)	(3,801)	(4,221)	(4,542)	(5,020)
CF from Fin. Activity	3,102	2,803	(2,027)	(5,697)	(10,442)	(10,610)
Inc/Dec of Cash	1,260	(966)	7,950	(7,377)	2,916	5,783

Source- Company, YES Sec

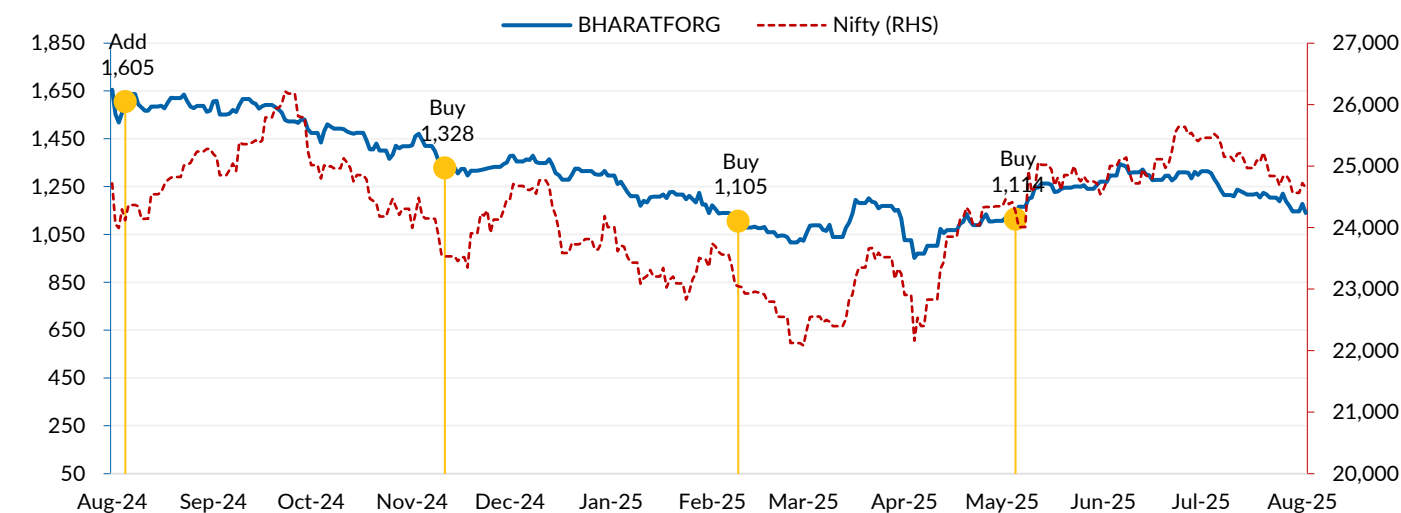
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Exhibit 15: Key Financial Ratios

VY/E March	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)						
EPS	21.7	12.0	20.9	21.8	25.2	35.6
Cash EPS	38.0	28.0	38.1	39.5	43.1	55.0
BV/Share	141.1	144.0	154.0	193.5	209.2	234.3
DPS	5.5	5.5	9.0	8.5	9.5	10.5
Payout (%)	23.1	42.7	44.8	44.3	38.5	29.9
Valuation (x)						
P/E	52.5	95.3	54.5	52.2	45.2	32.0
P/BV	8.1	7.9	7.4	5.9	5.4	4.9
EV/Sales	5.6	4.6	3.8	3.9	3.5	3.0
EV/EBITDA	29.0	33.6	23.2	21.7	20.5	17.3
Dividend Yield (%)	0.5	0.5	0.8	0.7	0.8	0.9
Return Ratios (%)						
RoE	16.8	8.4	14.0	12.7	12.5	16.0
RoCE	10.0	5.9	8.5	8.2	8.8	11.5
RoIC	13.2	7.4	10.7	10.7	11.1	14.6
Working Capital Ratios						
Fixed Asset Turnover (x)	1.3	1.3	1.4	1.2	1.2	1.3
Inventory (Days)	94.6	88.4	74.9	86.4	86.4	86.4
Debtor (Days)	75.8	87.6	73.9	70.3	70.0	70.0
Creditor (Days)	56.9	60.8	52.7	56.6	58.0	58.0
Working Capital Turnover (Days)	124.5	103.2	99.6	99.8	99.2	99.2
Leverage Ratio (x)						
Debt/Equity	0.9	1.1	1.1	0.7	0.6	0.6

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

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