

India

ADD (no change)

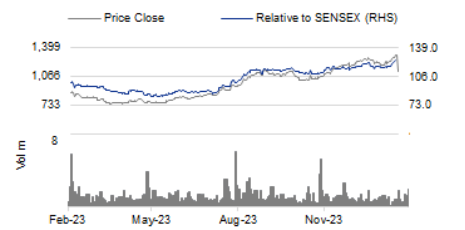
Consensus ratings*: Buy 18 Hold 3 Sell 8

Current price:	Rs1,131
Target price:	Rs1,366
Previous target:	Rs1,273
Up/downside:	20.8%
InCred Research / Consensus:	14.5%
Reuters:	BFRG.NS
Bloomberg:	BHFC IN
Market cap:	US\$6,344m
	Rs526,557m
Average daily turnover:	US\$15.7m
	Rs1301.7m
Current shares o/s:	465.7m
Free float:	54.8%

*Source: Bloomberg

Key changes in this note

- Maintain cons. sales for FY24F-26F.
- Upgrade EBITDA by 2-5% for FY24F-26F.
- Upgrade FY24F-26F EPS by 2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.8)	8.2	28.1
Relative (%)	(7.9)	(1.2)	8.9

Major shareholders	% held
Kalyani Family	45.3
Kotak Mutual Fund	5.0
Mirae Asset Mutual Fund	3.1

Research Analyst(s)

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Bharat Forge

EBITDA margin expansion trend continues

- 3QFY24 standalone EPS grew by 14% qoq to Rs8.5, beating our/Bloomberg consensus estimates, led by a sharp qoq improvement in the EBITDA margin.
- We upgrade our consolidated EBITDA by 2-5% for FY24F-26F due to lower losses of subsidiaries and an improvement in the parent's gross margin.
- Retain ADD rating on the stock as the industrial division's strong momentum is EPS-accretive.

Strong industrial division's performance led to beat in 3QFY24

3QFY24 standalone EBITDA of Bharat Forge rose by 9% qoq and 24% yoy to Rs6.6bn, which was 13% above our estimate and 8% above Bloomberg or BB consensus estimate. Better gross margin and lower other expenses led to a 330bp EBITDA margin growth qoq to 29.3%. Strong growth in domestic sales (34% yoy and 9% qoq) helped overcome the marginal weakness in exports (-6% qoq). Adjusted for the forex impact, PAT rose by 24% yoy and 14% qoq to Rs3.96bn, a 12% beat to our estimate. The consolidated entity recorded a growth of 17% qoq to Rs2.5bn aided by a 150bp rise in the EBITDA margin.

Management conference-call highlights

Defence subsidiary KSSL's sales rose by an impressive 45% qoq to Rs4.3bn, driven by gun exports. Management is hopeful of ATAG gun orders in the coming weeks. Management gave guidance of growth in the US and India commercial vehicle components business for the next two years but the Europe commercial vehicle or CV segment is weak. Management plans to start electric vehicle or EV retrofit kit fitment sales for trucks in the coming quarters. It has given guidance of the growth momentum moderating in the domestic & export markets across industries in 4QFY24F and FY25F, but the company to outperform from its new initiatives.

Consolidated EBITDA upgrade by 2-5% for FY24F-26F

Standalone EBITDA beat driven by domestic strong sales led to our FY24F-26F upgrade of 2-5%. For the consolidated entity, we raise our EBITDA estimates by 5% for FY24F and by around 2% for FY25F-26F. Higher interest costs and tax provision limits our EPS upgrade to 2% for FY24F-26F.

Maintain ADD rating with a higher target price of Rs1,366

The diversified business mix of Bharat Forge helps to overcome seasonality and cyclical demand challenges in the truck segment, as seen in the 3QFY24 performance. With the global aluminium components business gradually turning around, we feel the drag on the consolidated entity's profits to ease. We reiterate our ADD rating on the stock with a higher discounted cash flow or DCF-based target price of Rs1,366 (Rs1,273 earlier) as the valuation is below +1SD of the 10-year mean. Key downside risk is the global economic slowdown hurting the company's sales.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	104,611	129,103	158,535	180,635	202,188
Operating EBITDA (Rsm)	20,159	17,675	26,000	28,540	32,957
Net Profit (Rsm)	13,738	4,037	9,883	12,746	15,564
Core EPS (Rs)	22.6	10.5	21.2	27.4	33.4
Core EPS Growth	471.9%	(53.4%)	101.4%	29.0%	22.1%
FD Core P/E (x)	38.33	130.46	53.29	41.32	33.84
DPS (Rs)	5.5	8.0	10.0	11.0	11.0
Dividend Yield	0.49%	0.71%	0.88%	0.97%	0.97%
EV/EBITDA (x)	27.37	31.65	21.14	19.11	16.37
P/FCFE (x)	133.36	61.06	122.47	150.12	103.60
Net Gearing	76.2%	86.2%	52.8%	41.7%	30.9%
P/BV (x)	8.01	7.85	5.72	4.94	4.23
ROE	17.6%	7.4%	12.4%	12.8%	13.5%
% Change In Core EPS Estimates			1.87%	1.86%	1.29%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

EBITDA margin expansion trend continues

Management conference-call highlights >

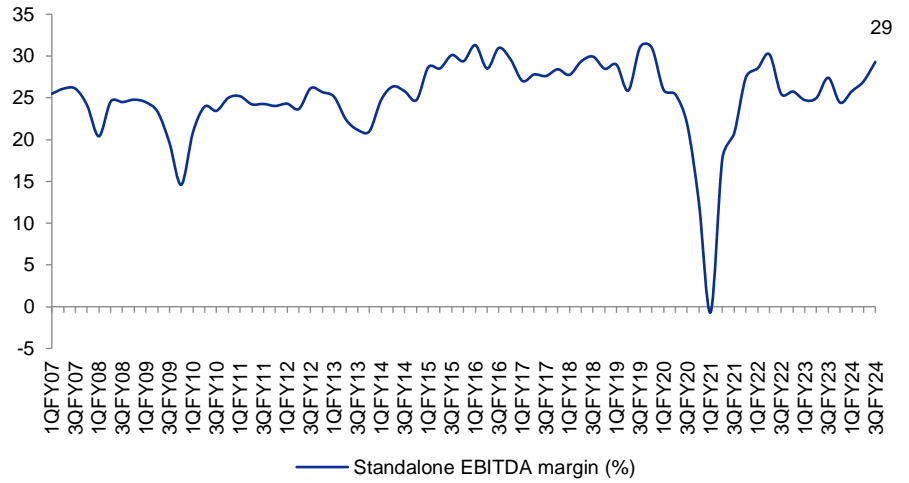
- **Outlook:** Management expects the growth momentum in 4QFY24F and FY25F to moderate in domestic as well as export markets across industries. However, Bharat Forge endeavours to outperform the market driven by its diversified business mix. Overall, the long-term outlook remains positive. In the medium term, Europe market is likely to remain weak while the US market may remain flat.
- **Financial performance:** The EBITDA margin was up 330bp yoy led by an improved product mix and higher capacity utilization due to superior operational performance.
- **Order book:** During the quarter, the company secured new business worth Rs5.5bn across automotive, industrial, defence, aerospace and castings (ferrous & aluminium) segments.
- **Overseas operations:** Management stated the company achieved improvement in the operation of its aluminium products business at its European plant and the same is expected in the US plant as well in the next 12 -18 months.
- **Export business:** Manufacturing operations revenue across components, defence & industrial segments in 3QFY24 stood at US\$200m, up 36% yoy. The growth momentum is likely to sustain led by new verticals' scale-up and the industrial segment.
- **Defence business:** The defence business was a major contributor to the growth in revenue. The company is participating in new development programs in the domestic as well as international markets. Revenue for the quarter was at Rs3.5bn.
- **Oil & gas and agri businesses:** The oil and gas segment declined to two-thirds of its peak level due to destocking and inventory correction. Management expects this to remain in the same range for a few more quarters. The agri segment also saw a decline.
- **Commercial vehicles:** This business registered a 9% yoy growth in 9MFY24, but the segment's long-term growth trajectory remains intact supported by government capex and allied infrastructure development. Management expects the CV segment to grow by 1.5-2x of India's GDP. On the export front, Class-8 trucks' build rate, inventory levels and sales remain steady while the European CV division's performance was subdued as the economic recovery remained patchy. Management is tapping new customers and enhancing engagement with the existing ones in multiple geographies.
- **Passenger vehicles:** The India passenger vehicle component business remains well-placed for growth driven by premiumization and the shift towards utility vehicles within the passenger vehicle space. Management expects this trend to continue, supported by the burgeoning middle class & higher disposable income.
- **Capex:** Management gave overall capex guidance of Rs10bn for the next two years.

Figure 1: Standalone results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	9MFY24	9MFY23	yoy % chg	Comments for the quarter
Revenue	22,634	19,521	15.9	22,494	0.6	66,400	55,754	19.1	In line with our estimate.
Raw Material costs	9,491	8,602	10.3	9,744	(2.6)	28,654	24,155	18.6	
RM costs as a % of revenue	41.9	44.1	(213)	43.3	(138.7)	43.2	43.3	(17)	
EBITDA	6,632	5,351	23.9	6,068	9.3	18,186	14,362	26.6	13.2% above our estimate.
EBITDA margin %	29.3	27.4	189	27.0	232	27.4	25.8	163	334bp above our estimate.
Depreciation & amortization	1,124	1,079	4.2	1,128	(0.4)	3,341	3,209	4.1	2% below our estimate.
EBIT	5,507	4,272	28.9	4,940	11.5	14,845	11,153	33.1	
Interest expenses	630	499	26.3	726	(13.3)	2,061	1,119	84.2	1% above our estimate.
Other Income	346	377	(8.5)	424	(18.5)	1,242	1,114	11.4	30% below our estimate.
Pre-tax profit	5,223	4,151	25.8	4,637	12.6	14,025	11,148	25.8	
Tax	1,266	952	33.0	1,156	9.5	3,472	2,664	30.3	
Tax rate (%)	24.2	22.9	131	25	(70)	25	24	86	124bp above our estimate.
Normalized net profit	3,957	3,199	23.7	3,481	13.7	10,553	8,483	24.4	12% above our estimate.
Extraordinary Income/expenses	(179)	(307)	nm	(21)	nm	(200)	(474)	nm	
Reported Net Profit	3,778	2,892	30.6	3,460	9.2	10,353	8,010	29.3	
Normalized EPS (Rs)	8.5	6.9	23.7	7.5	13.7	22.5	18.1	24.4	

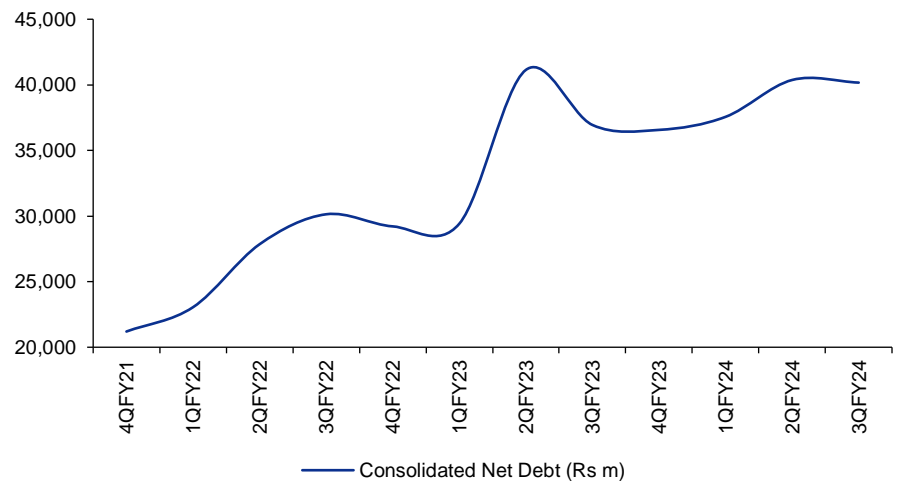
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 2: Standalone EBITDA margin is stable



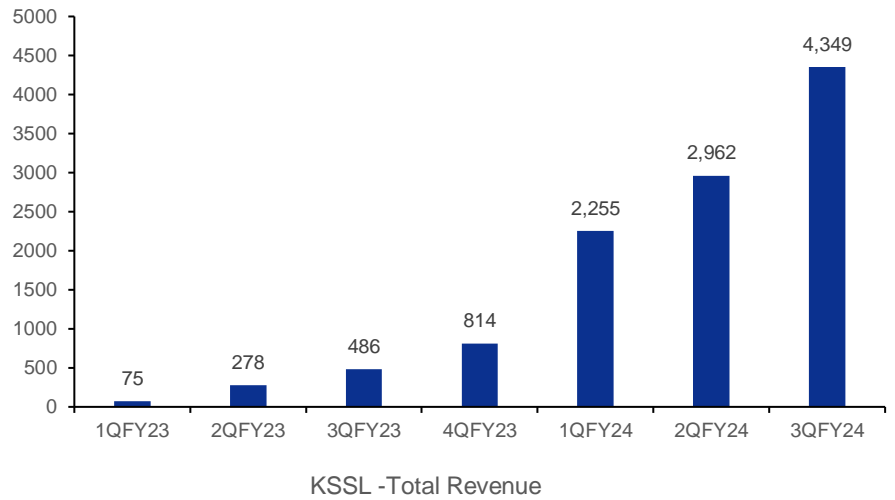
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Net debt remains stable



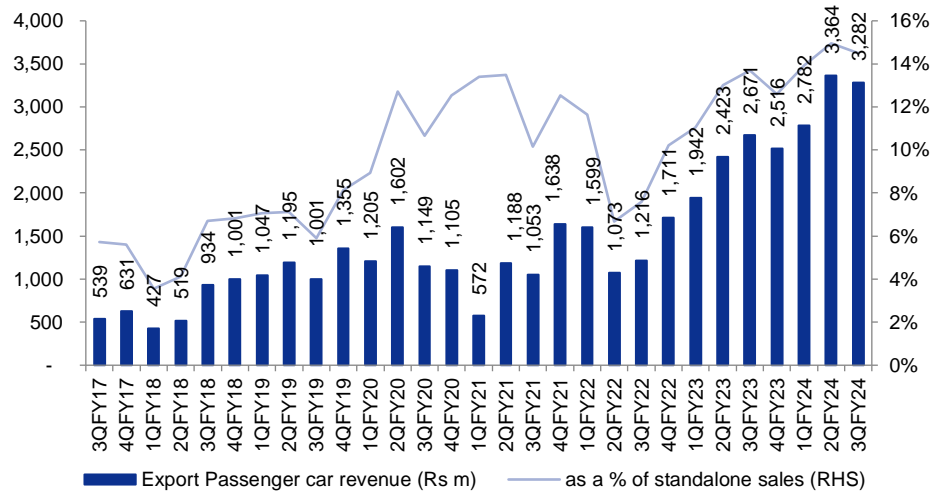
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Significant jump in defence subsidiary KSSL's revenue in recent quarters (Rs m)



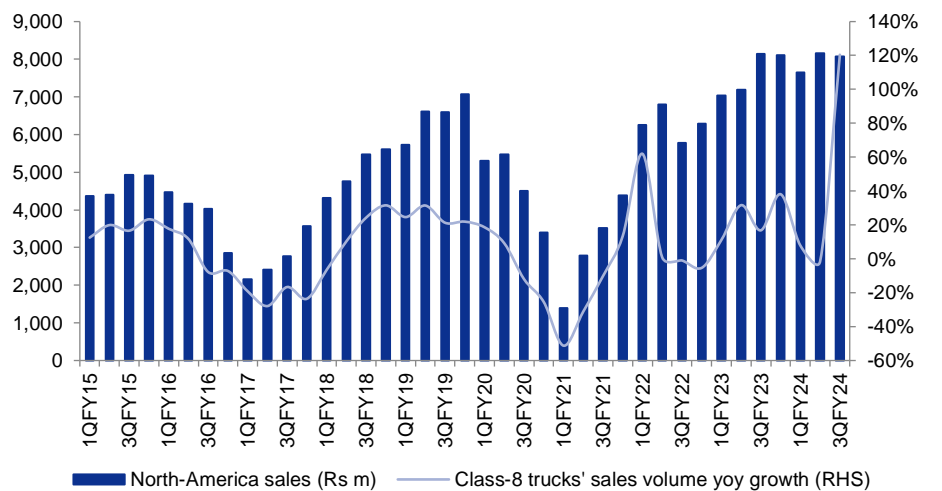
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Bharat Forge's passenger car component exports scale a new high



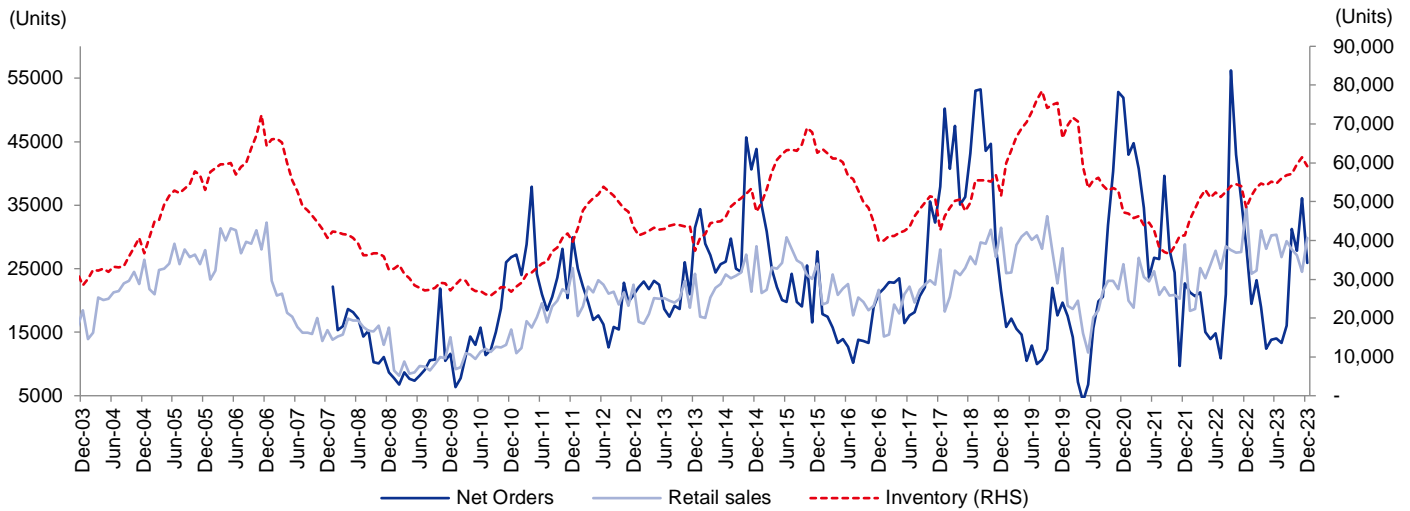
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: North America's revenue correlation to Class-8 trucks' volume growth



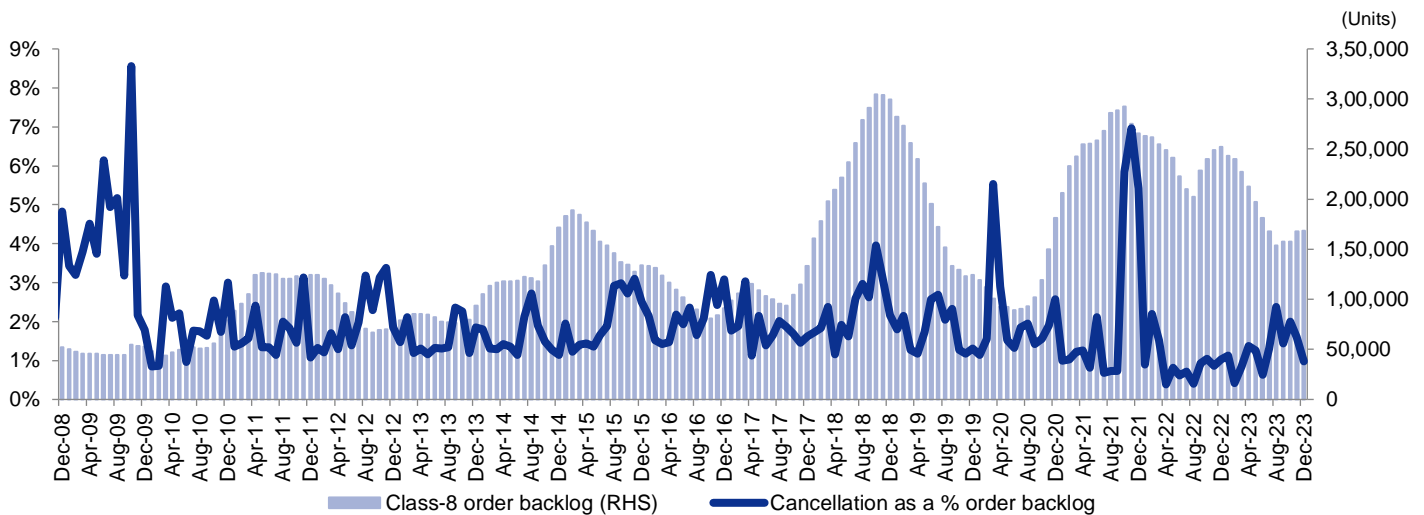
SOURCE: BOLLMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 7: North America Class-8 truck net orders rose during the quarter, but the gradual inventory build-up is an area of concern



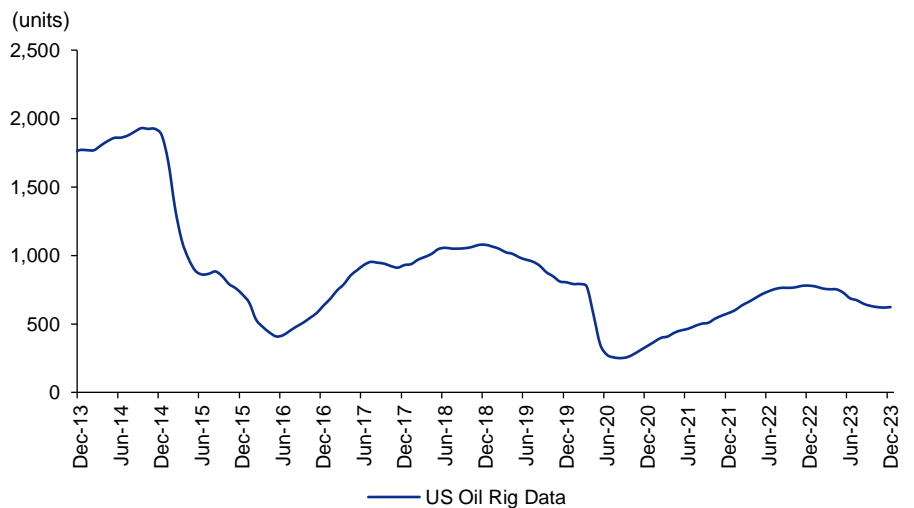
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 8: North America Class-8 truck order backlog is healthy, but cancellations rise marginally



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 9: US oil rig count flattens



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 10: Revenue by segment (Rs m)

	3QFY24	3QFY23	% yoy	2QFY24	% qoq	9HFY24	9HFY23	%yoy
India Revenue	10,499	7,857	33.6%	9,623	9.1%	29,605	22,951	29.0%
Commercial Vehicle	2,583	2,520	2.5%	2,603	-0.8%	7,920	7,286	8.7%
Industrial	7,146	4,408	62.1%	6,203	15.2%	19,474	12,969	50.2%
Passenger car	770	929	-17.1%	817	-5.8%	2,211	2,696	-18.0%
International Revenue	12,134	11,663	4.0%	12,871	-5.7%	36,793	32,802	12.2%
Commercial Vehicle	5,245	4,868	7.7%	5,474	-4.2%	15,870	14,221	11.6%
Industrial	3,607	4,124	-12.5%	4,033	-10.6%	11,495	11,545	-0.4%
Passenger car	3,282	2,671	22.9%	3,364	-2.4%	9,428	7,036	34.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Wholly-owned subsidiaries' qoq turnaround provides comfort

(Rs m)	3QFY24	3QFY23	% yoy	2QFY24	% qoq	1HFY24	1HFY23	% yoy
Total income	13,099	10,726	22.1%	12,053	8.7%	42,785	40,641	27.2%
EBITDA	218	-626	na	90	142.2%	-961	3,947	na
Margin %	1.7%	-5.8%	na	0.7%	na	-2.2%	9.7%	na
PBT	-1,100	-1,514	na	-1,156	na	-4,233	793	na
Margin %	-8.4%	-14.1%	na	-9.6%	na	-9.9%	2.0%	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Consolidated entity's earnings revision summary

	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Net sales (Rs m)	1,58,006	1,58,535	1,79,930	1,80,635	2,00,825	2,02,188
Change (%)		0.3%		0.4%		0.7%
EBITDA (Rs m)	24,807	26,000	28,069	28,540	32,132	32,957
Change (%)		4.8%		1.7%		2.6%
Normalized PAT (Rs m)	9,702	9,883	12,514	12,746	15,367	15,564
Change (%)		1.9%		1.9%		1.3%
Normalized EPS(Rs)	20.8	21.2	26.9	27.4	33.0	33.4
Change (%)		1.9%		1.9%		1.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Standalone entity's EPS revision summary

	FY24F		FY25F		FY26F	
	Old	New	Old	New	Old	New
Net sales (Rs m)	89,886	90,415	1,02,987	1,03,692	1,15,563	1,16,926
Change (%)		0.6%		0.7%		1.2%
EBITDA (Rs m)	23,550	24,548	27,086	27,582	30,855	31,219
Change (%)		4.2%		1.8%		1.2%
Normalized PAT (Rs m)	14,065	14,527	16,896	17,174	19,835	20,156
Change (%)		3.3%		1.6%		1.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

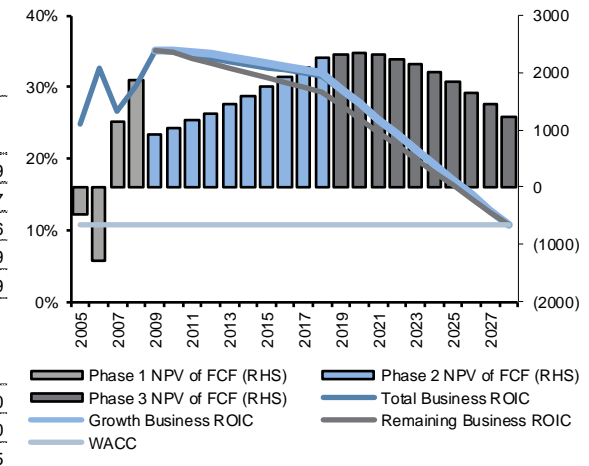
Figure 14: DCF-based valuation

Economic Profit Valuation			Discounted Cash Flow Valuation		
	Rs m	%		Rs m	%
Adjusted Opening Invested Capital	1,22,471	18.3	Value of Phase 1: Explicit (2024 to 2026)	10,250	1.5
NPV of Economic Profit During Explicit Period	8,518	1.3	Value of Phase 2: Value Driver (2027 to 2037)	3,29,692	49.3
NPV of Econ Profit of Remaining Business (1, 2)	22,625	3.4	Value of Phase 3: Fade (2038 to 2048)	2,72,060	40.7
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	5,15,114	77.0	Terminal Value	56,733	8.5
Enterprise Value	6,68,728	100.0	Enterprise Value	6,68,735	100.0
Plus: Other Assets	0	0.0	FCF Grth Rate at end of Phs 1 implied by DCF Valuat	0	10.1
Less: Minorities	36	0.0	FCF Grth Rate at end of Phs 1 implied by Current Pric	0	9.9
Less: Net Debt (as at 12 Feb 2024)	32,440	4.9			
Equity Value	6,36,252	95.1			
No. Shares (millions)	466				
Per Share Equity Value	Rs. 1,366				

Sensitivity Table		No of Years in Fade Period				
		6	9	11	13	16
WACC	9.1%	1390	1602	1746	1890	2109
	10.1%	1246	1424	1542	1661	1837
	11.1%	1119	1268	1366	1463	1606
	12.1%	1007	1132	1213	1293	1409
	13.1%	907	1012	1080	1145	1239

Performance Summary		Phase 2 Avg			
	2024	2025	2026	(2027 - 2037)	
Invested Capital Growth (%)	18.1	10.0	9.8	9.0	
Operating Margin (%)	12.4	12.5	13.1	12.0	
Capital Turnover (x)	1.6	1.5	1.5	1.5	

Returns, WACC and NPV of Free Cash Flow

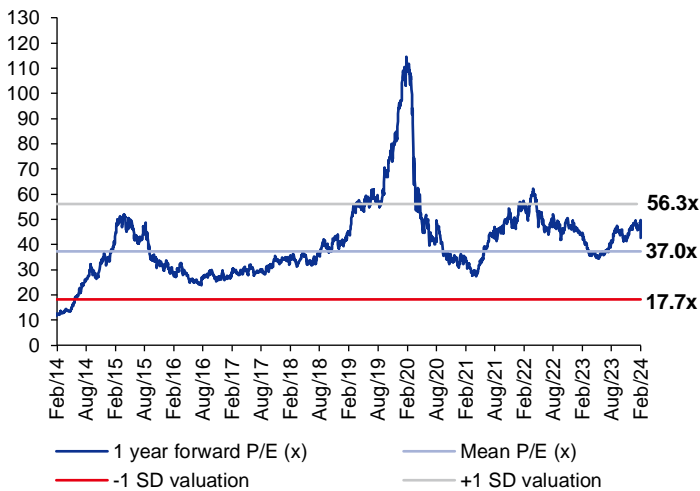


Note:

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
3. Net Investment is defined as capex over and above depreciation after Phase 1

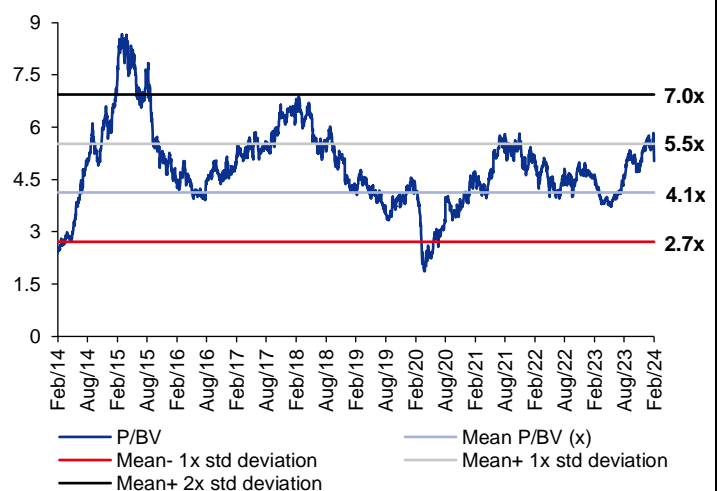
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 15: Forward P/E valuation below +1 SD valuation



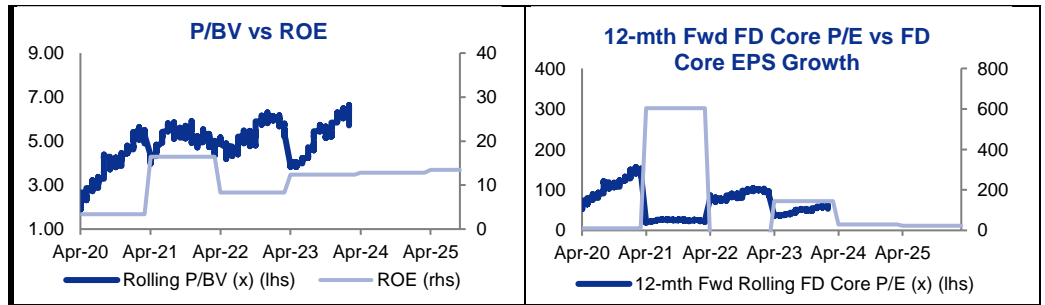
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Forward P/BV valuation below +1x SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	104,611	129,103	158,535	180,635	202,188
Gross Profit	36,297	31,911	42,963	47,507	53,984
Operating EBITDA	20,159	17,675	26,000	28,540	32,957
Depreciation And Amortisation	(7,303)	(7,356)	(8,865)	(8,921)	(9,213)
Operating EBIT	12,856	10,319	17,135	19,619	23,744
Financial Income/(Expense)	(1,604)	(2,986)	(4,620)	(3,235)	(2,704)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,959	1,729	2,581	2,913	2,770
Profit Before Tax (pre-EI)	13,211	9,062	15,096	19,298	23,810
Exceptional Items	3,892	(1,505)			
Pre-tax Profit	17,103	7,557	15,096	19,298	23,810
Taxation	(3,035)	(3,186)	(5,284)	(6,561)	(8,095)
Exceptional Income - post-tax					
Profit After Tax	14,069	4,371	9,813	12,736	15,714
Minority Interests	(330)	(334)	70	10	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	13,738	4,037	9,883	12,746	15,564
Recurring Net Profit	10,537	4,907	9,883	12,746	15,564
Fully Diluted Recurring Net Profit	10,537	4,907	9,883	12,746	15,564

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	20,159	17,675	26,000	28,540	32,957
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(12,459)	(8,210)	(5,303)	(2,954)	(3,630)
(Incr)/Decr in Total Provisions	(5,643)	8,833	(7,144)	(1,000)	(800)
Other Non-Cash (Income)/Expense	273	(1,060)	3,043	1,529	1,027
Other Operating Cashflow	3,892	(1,505)			
Net Interest (Paid)/Received	355	(1,258)	(2,039)	(322)	66
Tax Paid	(3,530)	(3,952)	(3,774)	(3,860)	(4,762)
Cashflow From Operations	3,048	10,523	10,783	21,934	24,857
Capex	(10,567)	(13,581)	(14,600)	(16,800)	(17,600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	720	(296)	18,285	4,124	4,076
Cash Flow From Investing	(9,847)	(13,877)	3,685	(12,676)	(13,524)
Debt Raised/(repaid)	10,748	11,978	(10,167)	(5,750)	(6,250)
Proceeds From Issue Of Shares	(86)	(534)	(291)	10	(150)
Shares Repurchased					
Dividends Paid	(2,561)	(3,725)	(4,656)	(5,122)	(5,122)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	8,100	7,718	(15,114)	(10,862)	(11,522)
Total Cash Generated	1,302	4,365	(647)	(1,604)	(189)
Free Cashflow To Equity	3,949	8,625	4,300	3,508	5,083
Free Cashflow To Firm	(5,195)	(367)	19,087	12,493	14,037

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	6,030	10,395	9,748	8,144	7,955
Total Debtors	21,736	30,988	36,919	40,581	44,315
Inventories	27,105	31,263	36,919	40,581	44,315
Total Other Current Assets	14,062	15,392	14,500	16,500	17,300
Total Current Assets	68,933	88,038	98,087	105,806	113,886
Fixed Assets	59,441	65,666	71,401	79,280	87,668
Total Investments	26,038	25,688	25,688	25,688	25,688
Intangible Assets	506	2,955	2,955	2,955	2,955
Total Other Non-Current Assets					
Total Non-current Assets	85,985	94,309	100,044	107,923	116,311
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	16,314	21,513	27,798	32,168	36,006
Other Current Liabilities	11,396	21,923	12,500	13,000	13,000
Total Current Liabilities	27,710	43,436	40,298	45,168	49,006
Total Long-term Debt	56,545	68,523	58,356	52,606	46,356
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	56,545	68,523	58,356	52,606	46,356
Total Provisions	4,395	2,971	7,401	9,430	10,457
Total Liabilities	88,651	114,931	106,055	107,204	105,819
Shareholders Equity	65,707	67,055	92,076	106,526	124,377
Minority Interests	561	361			
Total Equity	66,268	67,416	92,076	106,526	124,377

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	65.1%	23.4%	22.8%	13.9%	11.9%
Operating EBITDA Growth	133.9%	(12.3%)	47.1%	9.8%	15.5%
Operating EBITDA Margin	19.3%	13.7%	16.4%	15.8%	16.3%
Net Cash Per Share (Rs)	(108.48)	(124.83)	(104.39)	(95.48)	(82.47)
BVPS (Rs)	141.11	144.00	197.74	228.77	267.10
Gross Interest Cover	8.01	3.46	3.71	6.06	8.78
Effective Tax Rate	17.7%	42.2%	35.0%	34.0%	34.0%
Net Dividend Payout Ratio	26.0%	67.2%	47.1%	40.2%	32.9%
Accounts Receivables Days	62.69	74.53	78.17	78.30	76.63
Inventory Days	120.33	109.60	107.67	106.24	104.54
Accounts Payables Days	75.82	71.03	77.87	82.20	83.95
ROIC (%)	11.7%	7.3%	11.2%	10.7%	11.8%
ROCE (%)	11.4%	7.9%	11.8%	12.3%	13.9%
Return On Average Assets	7.9%	4.7%	6.8%	7.2%	7.9%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	25.9%	10.5%	6.6%	5.5%	5.1%
Unit sales grth (% , main prod./serv.)	36.0%	9.5%	12.0%	8.7%	7.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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