



India

ADD (no change)

Consensus ratings*: Buy 14 Hold 3 Sell 11

Current price:	Rs1,605
Target price:	Rs1,831
Previous target:	Rs1,595
Up/downside:	14.1%
InCred Research / Consensus:	25.8%

Reuters:	
Bloomberg:	BHFC IN
Market cap:	US\$10,294m Rs747,479m
Average daily turnover:	US\$31.9m Rs2319.4m
Current shares o/s:	465.7m
Free float:	54.8%

*Source: Bloomberg

Key changes in this note

- FY25F-26F consolidated net sales cut marginally.
- Consolidated EBITDA upgrade by 1-4%.
- Consolidated PAT raised by around 2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.1)	14.3	77.3
Relative (%)	(2.3)	4.9	48.3

Major shareholders	% held
Kalyani Family	45.3
Kotak Mutual Fund	5.6
Dsp Midcap Fund	2.1

Research Analyst(s)



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Bharat Forge

Good show of subsidiaries in 1Q

- 1Q export weakness overcome by strong performance of subsidiaries, leading to a robust 85% yoy rise in consolidated PAT vs. 33% standalone PAT growth.
- Raise consolidated FY25F-26F PAT by around 2% for better EBITDA margins in the European subsidiary and in JS Auto.
- Raise DCF-based target price to Rs1,831 and retain ADD rating, as a diverse revenue base aids in overcoming short-term challenges on the demand front.

India industrial division's growth helps overcome challenges

Bharat Forge's 1QFY25 standalone EBITDA rose by 19% yoy but was flat qoq at Rs6.5bn, which was 3% below our estimate but in line with Bloomberg or BB consensus estimate. Sales growth was below expectation, at 10% yoy, due to the decline in commercial vehicle parts sales in India and overseas, and also industrial parts exports. Normalized PAT rose 33% yoy to Rs.4.5bn, in line with our estimate. Write-off of the Torque investment of Rs1.5bn led to a reported PAT decline of 14% yoy to Rs2.7bn. The consolidated entity recorded an 85% yoy growth in normalized PAT to Rs3.96bn aided by strong EBITDA performance of subsidiaries.

Management conference-call highlights

Management has taken an enabling resolution to raise Rs20bn equity instruments to fund capex and acquisitions in India. Management gave guidance of the oil & gas segment recovering from its recent lows. It expects India government's gun orders soon, amounting to around Rs20bn. Also, the government support for defence exports is improving, including better financing terms. Considering its nine platforms for guns, the company plans to gain a better market share globally. New customer order ramp-up for car parts may aid in FY26F. JS Auto continues to scale up, with a 48% yoy rise in its EBITDA to Rs220m.

Consolidated EBITDA margin expansion drives EPS upgrade

The strong 400bp yoy and qoq consolidated EBITDA margin expansion in 1Q, aided by both local and international subsidiaries, helped overcome the challenges faced on the sales front. While we have cut the standalone entity's EBITDA by around 2% for FY25F-26F for weak export growth, the strong performance of subsidiaries helps raise consolidated EBITDA by around 1-4% for FY25F-26F.

Diversified revenue stream beneficiary; maintain ADD rating

Management plans to expand Bharat Forge's business verticals through India acquisitions which, we feel, will diversify the revenue stream and provide medium-term growth, as seen in defence products and castings now. We roll forward our DCF-based target price to Rs1,831 (Rs1,595 earlier) to reflect increased capital investment and reiterate our ADD rating on the stock, as the valuation is near +1SD of the 10-year mean P/E and P/BV. Key downside risks are the global economic slowdown hurting the company's sales and volatile freight costs impacting short-term profitability.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	129,103	156,821	183,114	211,083	243,041
Operating EBITDA (Rsm)	17,675	25,579	32,045	35,040	39,859
Net Profit (Rsm)	4,037	9,101	12,442	16,847	20,024
Core EPS (Rs)	10.5	19.7	28.8	36.2	43.0
Core EPS Growth	(53.4%)	87.0%	46.0%	25.7%	18.9%
FD Core P/E (x)	185.20	82.14	60.08	44.37	37.33
DPS (Rs)	8.0	10.0	11.0	11.0	11.0
Dividend Yield	0.50%	0.62%	0.69%	0.69%	0.69%
EV/EBITDA (x)	44.15	30.78	24.33	22.08	19.31
P/FCFE (x)	86.68	64.88	657.71	226.43	336.42
Net Gearing	86.2%	81.4%	48.9%	36.3%	27.7%
P/BV (x)	11.15	10.43	7.22	6.08	5.16
ROE	7.4%	13.2%	15.3%	14.9%	14.9%
% Change In Core EPS Estimates			(1.85%)	1.61%	(0.85%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Good show of subsidiaries in 1Q

Management conference-call highlights➤

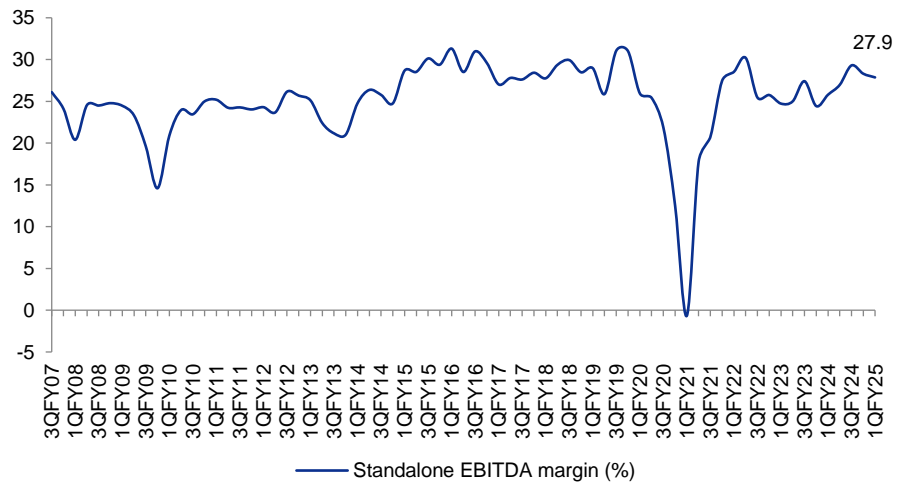
- **Order book:** During the quarter, Bharat Forge secured new business worth Rs9.80bn across sectors including defence, aluminum and ferrous castings and the core forging business.
- **International business:** European aluminium business remained stable as the company took a price hike, while the US operations posted an EBITDA loss of Rs230m due to weak demand, which is likely to improve at end of this fiscal year. Capacity utilization at European operations and US Aluminum stood at 75% and 50%, respectively.
- **Defence business:** Management is confident of topping 50% growth rate for the year and maintaining profitability led by the company's strong order book and the government initiative of doubling India's defence products exports. With order wins amounting to Rs7.75bn, the executable order book at the end of 1QFY25 stood at Rs54bn, with a mix of artillery guns, vehicles and consumables. As per management, India needs ~4,000 guns to cater this demand, and the company has nine artillery platforms. Also, globally there is a huge requirement for replacing vintage guns. Currently, it has orders for 307 guns.
- **Commercial vehicle business:** Domestic commercial vehicle or CV parts business remained soft yoy due to general elections in India, while the long-term outlook for the sector remains promising driven by the government push to the infrastructure sector. CV parts exports business continued to remain steady. Inventory levels in the supply chain remain reasonable while the sales momentum continues. For FY25F, CV parts exports are likely to be stable with a moderately negative bias.
- **JS Auto:** Recorded a revenue of Rs1.59bn, up 26% yoy, with an EBITDA margin of 14% led by improved productivity and cost improvement measures. Going ahead, management expects improving margins, supported by organic sales growth, over the next 24 – 36 months.
- **Aerospace and oil & gas businesses:** Management expects a growth of 15-20% in the aerospace business in FY25F. The oil and gas business is starting to show momentum.
- **Fund raising:** The company plans to raise funds amounting to Rs20bn for the growth of manufacturing in domestic as well as international markets.
- **Commercial vehicle parts business:** The outlook for the next year is stable in the US CV segment, while in India the growth expectation is in the range of -5% to +5%.
- **Sub-segments:** The higher horsepower engine witnessed an increase in demand while the construction and mining demand remained weak led by structural changes of two-to-three years. Management is hopeful of improvement from next year.
- **Freight costs and capex:** Freight costs remain elevated due to unavailability of containers. Capex planned is Rs10bn for FY25F and FY26 each.

Figure 1: Standalone results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg	Comments for the quarter
Revenue	23,381	21,273	9.9	23,286	0.4	4% below with our estimate.
Raw material costs	9,777	9,420	3.8	9,647	1.4	
RM costs as a % of revenue	41.8	44.3	(246)	41.4	39.0	
EBITDA	6,515	5,487	18.7	6,592	(1.2)	3% above our estimate.
<i>EBITDA margin %</i>	<i>27.9</i>	<i>25.8</i>	<i>207</i>	<i>28.3</i>	<i>(44)</i>	36bp above our estimate.
Depreciation & amortization	1,094	1,089	0.5	1,079	1.4	3% below with our estimate.
EBIT	5,420	4,398	23.2	5,512	(1.7)	
Interest expenses	702	705	(0.5)	634	10.7	17% above our estimate.
Other income	446	472	(5.6)	382	16.8	13% below our estimate.
Pre-tax profit	5,164	4,165	24.0	5,261	(1.8)	
Tax	1,014	1,050	(3.5)	1,231	(17.6)	
Tax rate (%)	19.6	25.2	(558)	23	(377)	437bp below our estimate.
Normalized net profit	4,151	3,115	33.3	4,030	3.0	1% below our estimate
Extraordinary income/expenses	(1,457)	-	nm	(133)	nm	
Reported net profit	2,694	3,115	(13.5)	3,897	(30.9)	
Normalized EPS (Rs)	8.9	6.7	33.3	8.7	3.0	

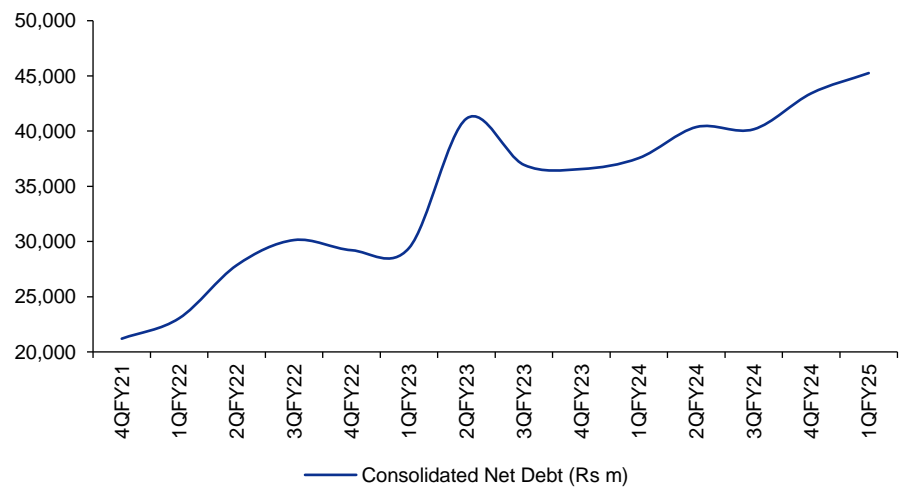
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Standalone EBITDA margin is stable



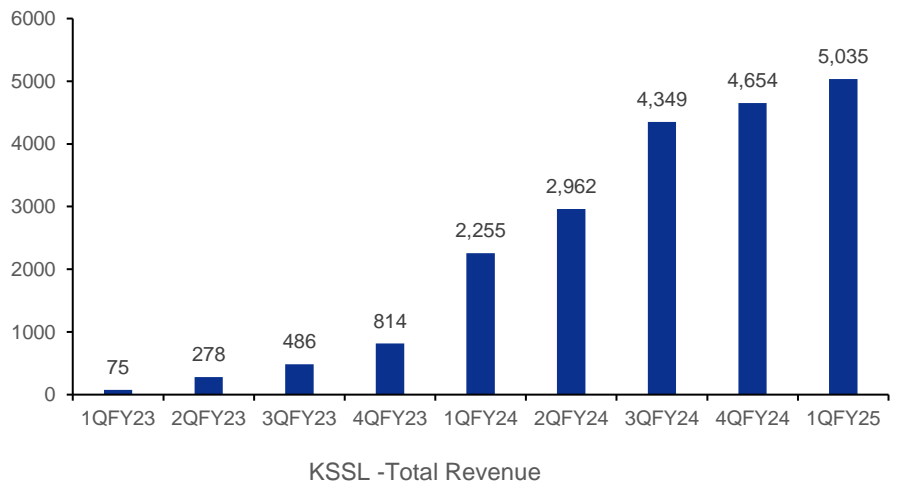
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Net debt on the rise is a cause for concern



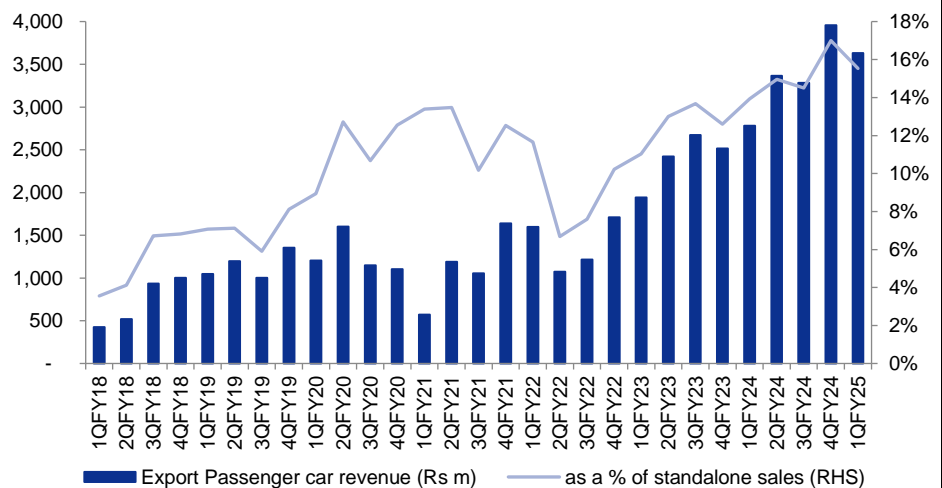
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Defence subsidiary KSSL's revenue continues to rise (Rs m)



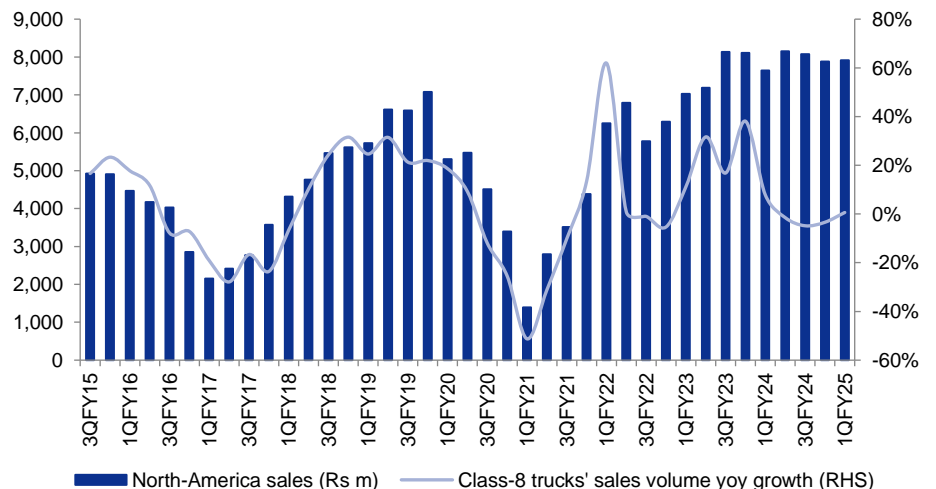
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Bharat Forge's passenger car component exports stabilizing



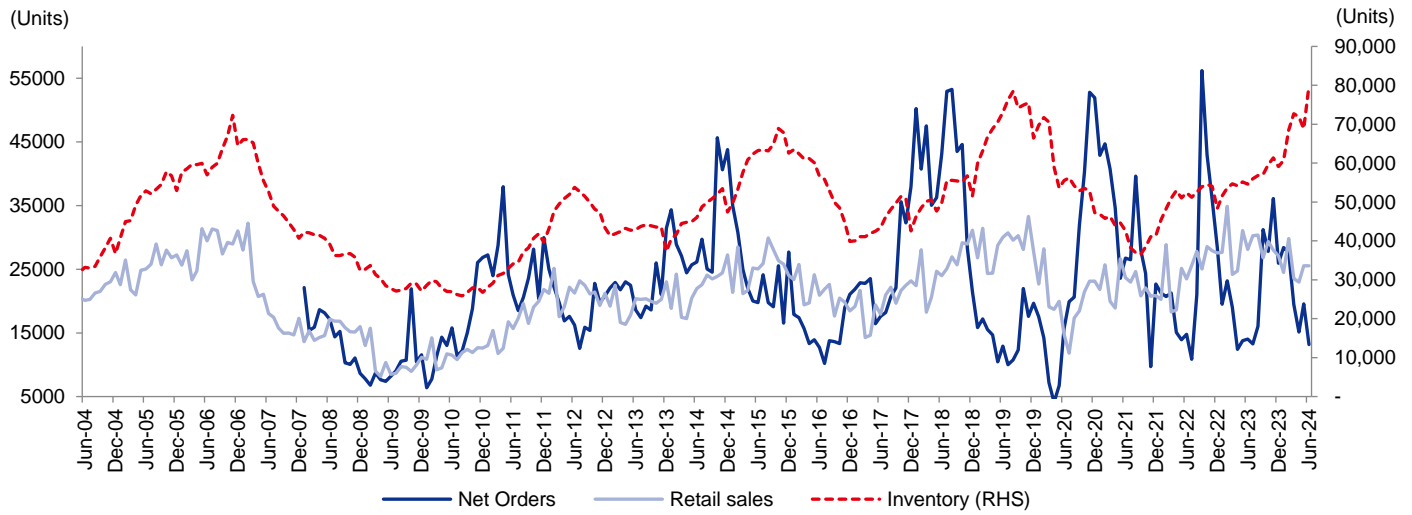
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



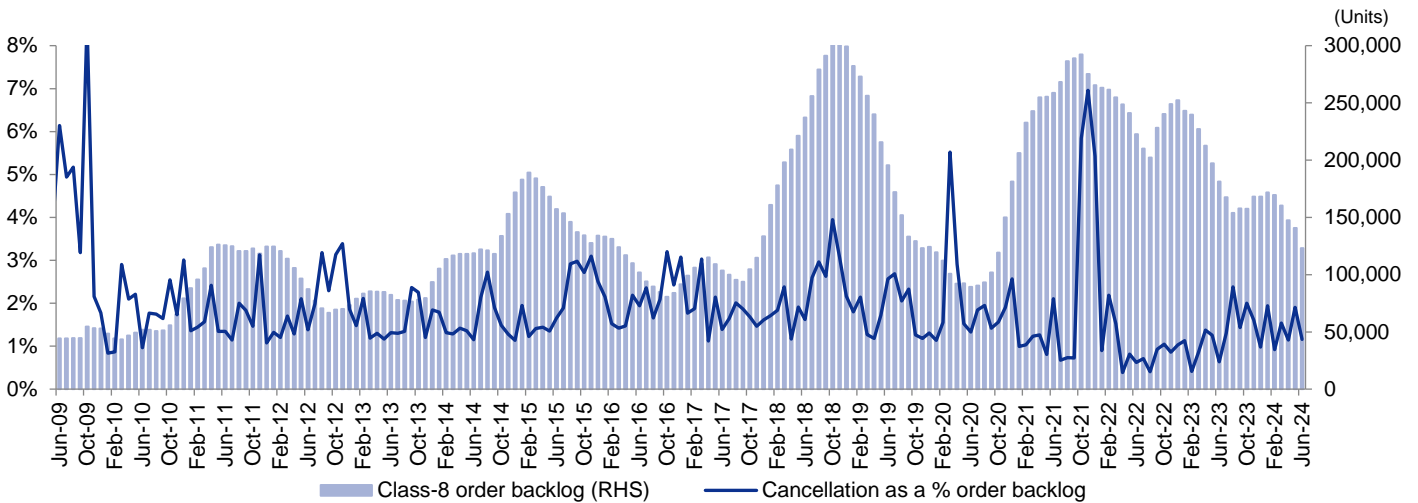
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: North America Class-8 truck net orders dip and the inventory build-up are the areas of concern



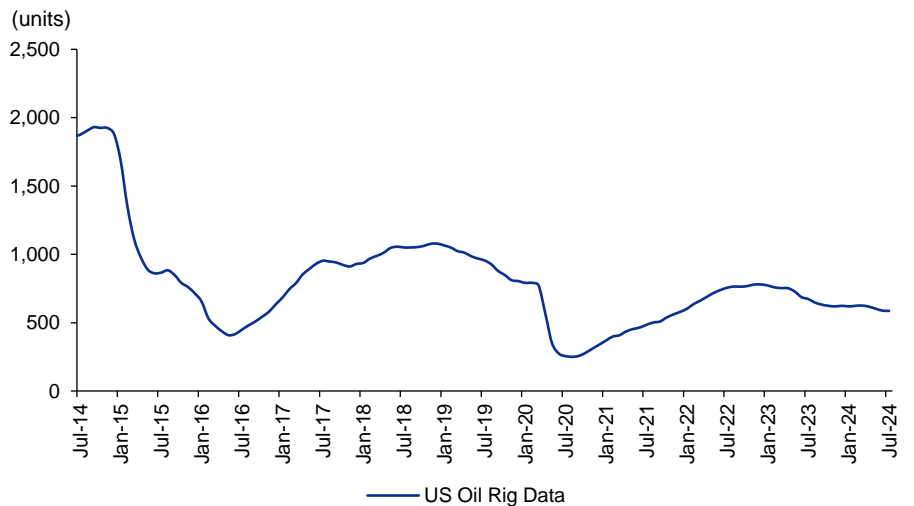
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: US oil rig count flattens



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Revenue by segment (Rs m)

	1QFY25	1QFY24	% yoy	4QFY24	% qoq	FY24	FY23	%yoy
India Revenue	11,679	9,484	23.1%	10,798	8.2%	40,403	31,121	29.8%
Commercial vehicle	2,489	2,734	-9.0%	2,421	2.8%	10,341	10,140	2.0%
Industrial	8,374	6,126	36.7%	7,591	10.3%	27,065	17,468	54.9%
Passenger car	816	624	30.8%	786	3.8%	2,997	3,513	-14.7%
International Revenue	11,701	11,788	-0.7%	12,488	-6.3%	49,283	44,605	10.5%
Commercial vehicle	5,318	5,151	-3.2%	5,264	1.0%	21,134	19,267	9.7%
Industrial	2,752	3,855	-28.6%	3,266	-15.7%	15,454	15,786	-2.1%
Passenger car	3,631	2,782	30.5%	3,958	-8.3%	12,694	9,552	32.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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

(Rs m)	1QFY25	1QFY24	% yoy	4QFY24	% qoq
Total income	13,200	13,336	-1.0%	13,672	-3.5%
EBITDA	370	158	na	332	11.4%
Margin %	2.8%	1.2%	na	2.4%	na
PBT	-529	-930	na	-539	na
Margin %	-4.0%	-7.0%	na	-3.9%	na

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Consolidated entity's earnings revision summary

	FY25F		FY26F	
	Old	New	Old	New
Net sales (Rs m)	1,84,469	1,83,114	2,11,587	2,11,083
Change (%)		-0.7%		-0.2%
EBITDA (Rs m)	30,806	32,045	34,700	35,040
Change (%)		4.0%		1.0%
Normalized PAT (Rs m)	13,657	13,960	16,581	16,847
Change (%)		2.2%		1.6%
Normalized EPS(Rs)	29.3	30.0	35.6	36.2
Change (%)		2.2%		1.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Standalone entity's EPS revision summary

	FY25F		FY26F	
	Old	New	Old	New
Net sales (Rs m)	1,04,489	1,01,443	1,19,374	1,16,060
Change (%)		-2.9%		-2.8%
EBITDA (Rs m)	28,421	27,795	32,350	31,452
Change (%)		-2.2%		-2.8%
Normalized PAT (Rs m)	17,643	17,164	20,865	20,178
Change (%)		-2.7%		-3.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

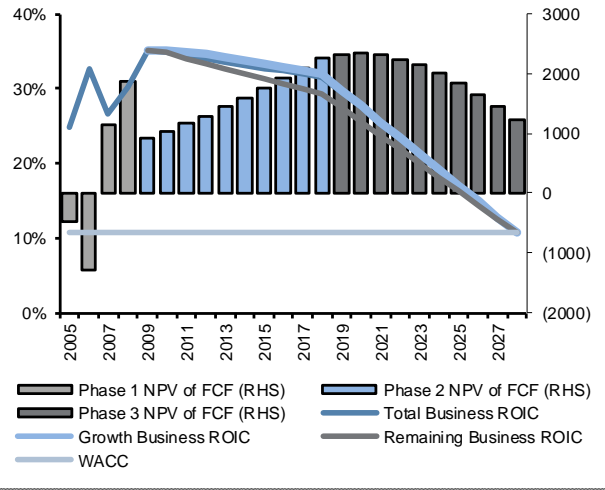
Figure 14: Discounted cash flow or DCF-based valuation

Economic Profit Valuation			Discounted Cash Flow Valuation		
	Rs m	%		Rs m	%
Adjusted Opening Invested Capital	1,27,658	14.3	Value of Phase 1: Explicit (2025 to 2027)	4,533	0.5
NPV of Economic Profit During Explicit Period	15,789	1.8	Value of Phase 2: Value Driver (2028 to 2038)	4,35,142	48.8
NPV of Econ Profit of Remaining Business (1, 2)	31,765	3.6	Value of Phase 3: Fade (2039 to 2049)	3,75,457	42.1
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	7,17,269	80.4	Terminal Value	77,332	8.7
Enterprise Value	8,92,481	100.0	Enterprise Value	8,92,464	100.0
Plus: Other Assets	0	0.0	FCF Grth Rate at end of Phs 1 implied by DCF Valuat	0	10.5
Less: Minorities	36	0.0	FCF Grth Rate at end of Phs 1 implied by Current Pric	0	10.4
Less: Net Debt (as at 08 Aug 2024)	39,832	4.5			
Equity Value	8,52,613	95.5			
No. Shares (millions)	466				
Per Share Equity Value	Rs. 1,831				

Sensitivity Table	WACC	No of Years in Fade Period				
		6	9	11	13	16
	9.1%	1864	2165	2371	2580	2898
	10.1%	1660	1912	2081	2251	2507
	11.1%	1481	1691	1831	1970	2175
	12.1%	1323	1499	1615	1728	1894
	13.1%	1184	1331	1427	1520	1654

Performance Summary	Phase 2 Avg			
	2025	2026	2027	(2028 - 2038)
Invested Capital Growth (%)	25.0	11.3	12.2	10.2
Operating Margin (%)	14.0	13.6	13.6	12.5
Capital Turnover (x)	1.6	1.5	1.6	1.5

Returns, WACC and NPV of Free Cash Flow

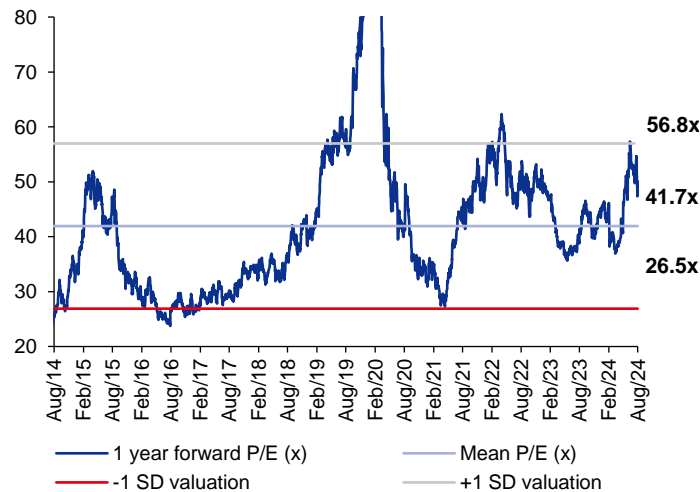


Note:

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

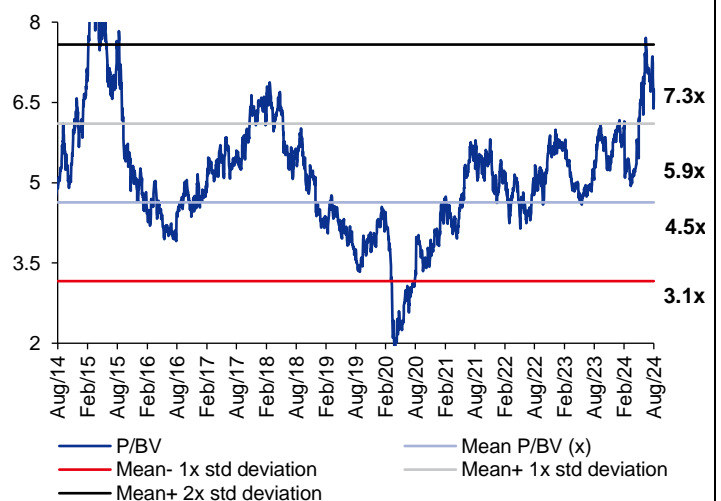
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



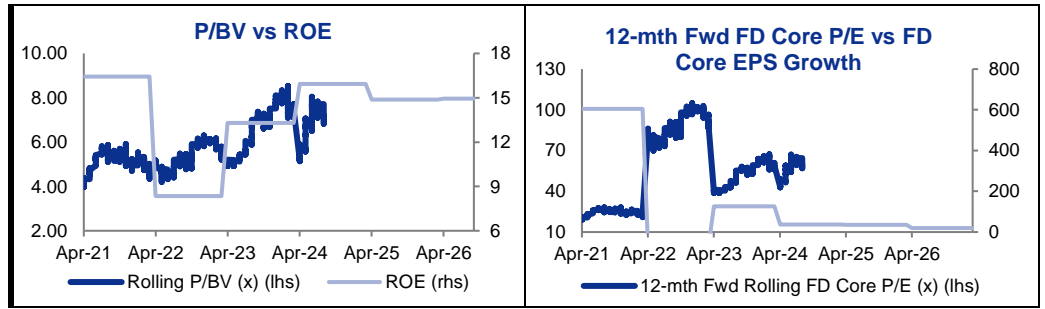
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	129,103	156,821	183,114	211,083	243,041
Gross Profit	31,911	42,853	51,272	56,781	65,135
Operating EBITDA	17,675	25,579	32,045	35,040	39,859
Depreciation And Amortisation	(7,356)	(8,482)	(8,900)	(9,124)	(9,448)
Operating EBIT	10,319	17,097	23,145	25,916	30,411
Financial Income/(Expense)	(2,986)	(4,912)	(4,526)	(3,022)	(2,553)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,729	2,274	2,517	2,860	2,709
Profit Before Tax (pre-EI)	9,062	14,460	21,136	25,754	30,567
Exceptional Items	(1,505)	(123)	(1,518)		
Pre-tax Profit	7,557	14,336	19,619	25,754	30,567
Taxation	(3,186)	(5,288)	(7,186)	(8,756)	(10,393)
Exceptional Income - post-tax					
Profit After Tax	4,371	9,048	12,432	16,997	20,174
Minority Interests	(334)	53	10	(150)	(150)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,037	9,101	12,442	16,847	20,024
Recurring Net Profit	4,907	9,179	13,404	16,847	20,024
Fully Diluted Recurring Net Profit	4,907	9,179	13,404	16,847	20,024

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	17,675	25,579	32,045	35,040	39,859
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,210)	(572)	(13,374)	(4,304)	(8,931)
(Incr)/Decr in Total Provisions	8,833	(6,052)	(6,592)	(2,000)	(1,800)
Other Non-Cash (Income)/Expense	(1,060)	(619)	3,724	2,099	1,142
Other Operating Cashflow	(1,505)	(123)	(1,518)		
Net Interest (Paid)/Received	(1,258)	(2,637)	(2,009)	(162)	156
Tax Paid	(3,952)	(5,691)	(5,284)	(5,151)	(6,113)
Cashflow From Operations	10,523	9,884	6,992	25,522	24,313
Capex	(13,581)	(12,862)	(16,800)	(18,600)	(17,600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(296)	7,803	22,670	4,130	2,759
Cash Flow From Investing	(13,877)	(5,060)	5,870	(14,470)	(14,841)
Debt Raised/(repaid)	11,978	6,697	(11,725)	(7,750)	(7,250)
Proceeds From Issue Of Shares	(534)	(356)			
Shares Repurchased					
Dividends Paid	(3,725)	(4,656)	(5,122)	(5,122)	(5,122)
Preferred Dividends					
Other Financing Cashflow		(5)			
Cash Flow From Financing	7,718	1,680	(16,847)	(12,872)	(12,372)
Total Cash Generated	4,365	6,504	(3,985)	(1,820)	(2,900)
Free Cashflow To Equity	8,625	11,522	1,137	3,302	2,222
Free Cashflow To Firm	(367)	9,736	17,387	14,073	12,025

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	10,395	16,899	12,914	11,093	8,194
Total Debtors	30,988	31,769	41,138	46,265	53,269
Inventories	31,263	32,161	41,138	46,265	53,269
Total Other Current Assets	15,392	19,514	21,000	23,000	24,800
Total Current Assets	88,038	100,344	116,190	126,623	139,532
Fixed Assets	65,666	70,046	77,947	87,423	95,575
Total Investments	25,688	18,490	18,490	18,490	18,490
Intangible Assets	2,955	2,960	2,960	2,960	2,960
Total Other Non-Current Assets					
Total Non-current Assets	94,309	91,496	99,396	108,872	117,024
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	21,513	22,621	27,593	33,542	38,620
Other Current Liabilities	21,923	18,999	13,000	13,000	13,000
Total Current Liabilities	43,436	41,620	40,593	46,542	51,620
Total Long-term Debt	68,523	75,221	63,496	55,746	48,496
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	68,523	75,221	63,496	55,746	48,496
Total Provisions	2,971	3,346	7,962	10,061	11,203
Total Liabilities	114,931	120,186	112,051	112,349	111,319
Shareholders Equity	67,055	71,702	103,594	123,055	144,996
Minority Interests	361	(49)	(59)	91	241
Total Equity	67,416	71,653	103,535	123,146	145,237

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	23.4%	21.5%	16.8%	15.3%	15.1%
Operating EBITDA Growth	(12.3%)	44.7%	25.3%	9.3%	13.8%
Operating EBITDA Margin	13.7%	16.3%	17.5%	16.6%	16.4%
Net Cash Per Share (Rs)	(124.83)	(125.25)	(108.63)	(95.89)	(86.55)
BVPS (Rs)	144.00	153.98	222.47	264.27	311.38
Gross Interest Cover	3.46	3.48	5.11	8.58	11.91
Effective Tax Rate	42.2%	36.9%	36.6%	34.0%	34.0%
Net Dividend Payout Ratio	67.2%	50.5%	36.7%	30.4%	25.6%
Accounts Receivables Days	74.53	73.03	72.66	75.57	74.74
Inventory Days	109.60	101.56	101.46	103.38	102.10
Accounts Payables Days	71.03	70.67	69.51	72.31	74.03
ROIC (%)	7.3%	11.1%	13.5%	12.1%	12.8%
ROCE (%)	7.9%	12.1%	14.6%	14.6%	15.8%
Return On Average Assets	4.7%	6.7%	8.3%	8.4%	8.9%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	10.5%	7.1%	2.8%	6.6%	14.6%
Unit sales grth (% , main prod./serv.)	9.5%	10.6%	10.0%	7.3%	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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