

Bharat Forge

12 August 2021

Earnings upgrade continues

RESULT UPDATE

Sector: Auto Ancillary **Rating:** BUY
CMP: Rs 827 **Target Price:** Rs 915

Stock Info

Sensex/Nifty	54,225/16,182
Bloomberg	BHFC IN
Equity shares (mn)	466
52-wk High/Low	Rs 832/408
Face value	Rs 2
M-Cap	Rs 355bn/USD 4.8bn
3-m Avg volume	USD 9.9mn

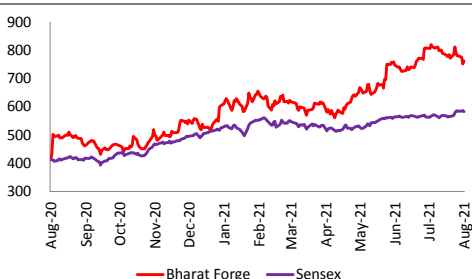
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Net Sales	63,363	89,131	107,709
EBIDTA	8,617	20,069	25,568
PAT	1,793	11,240	15,488
EPS (Rs)	4	24	33
PE (x)	214.8	34.3	24.9
EV/EBITDA (x)	47.1	19.8	15.0
RoE (%)	3	19	22
RoCE (%)	4	14	18
FCF yield (%)	0.3	2.3	3.4

Shareholding pattern (%)

	Jun'21	Mar'21	Dec'20
Promoter	44.8	45.8	45.8
-Pledged	-	-	-
FII	25.3	24.9	21.9
DII	12.3	12.5	11.8
Others	17.6	16.8	20.5

Stock Performance (1-year)



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Bharat Forge (BHFC)'s 1QFY22 operating performance was 35-40% ahead of consensus and our estimates. EBITDA margin at 28.5% (at ~70% utilisation) was driven by a sharp increase in export contribution. Overseas subsidiaries reported the best-ever operating margins of 11.7% and remained PBT positive for the second consecutive quarter. The management highlighted that the company is seeing improved traction across domestic and export segments. While the near term order outlook for the domestic CV segment remains weak, BHFC expects a sharp recovery in 2HFY22. It is seeing significant order wins from new segments like e-mobility and supplies have commenced in the domestic segment (exports to start from FY23). Cost rationalisation and operating leverage benefits should improve cross cycle profitability. We increase our FY22E/23E EBITDA by 15%/11% and reiterate BUY with a target price of Rs 915 (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 & e-mobility verticals.

Key con-call takeaways

- Domestic business:** Commercial vehicle (CV)/passenger vehicle (PV) revenues declined 43%/14% QoQ due to COVID-led lockdowns. The management expects sequential growth in 2Q led by an anticipated recovery in the CV segment. Industrial segment revenues declined 10% QoQ; BHFC expects the industrial business to grow significantly over the medium to long term led by the construction and defence segment.
- Sanghvi Forging acquisition completed:** The company completed the acquisition of Sanghvi Forging for Rs 0.8bn. The acquisition should enhance BHFC's industrial segment business; the management expects it to attain break-even in 2Q itself and is targetting a revenue of ~Rs 5bn from it going forward.
- Export business:** Industrial, CV and PV revenues grew 76%, 15% (despite flat production) and -2% QoQ, respectively. While the global CV industry is witnessing demand recovery, the shortage of chips may hurt production in the near term. NA Class 8 truck production is estimated at ~300,000 units for CY21 (up ~43% YoY). Oil & gas segment revenue was Rs 1.5bn in 1Q vs. Rs 0.5bn QoQ; recovery is likely to continue over the near term.
- E-mobility segment:** BHFC is developing an array of products, apart from its light-weighting technologies for the electric powertrains, including power electronics, transmissions and sub-assemblies to cater to 2/3Ws, passenger vehicles as well as global CVs. It has commenced supplies in India and expects this segment to become a significant contributor to overall revenues.
- Aluminium forging:** BHFC's Nellore plant is seeing strong demand and is expected to reach its peak capacity by FY23E. Its aluminium forging plant in North Carolina is also seeing strong traction and is expected to reach full capacity by FY24E. Order visibility currently exceeds capacity and hence, the company will undertake phase-2 plant expansion after FY24E. In the aerospace segment, BHFC has received new orders and it expects revenues to increase to USD 20mn in 2 years from USD 5-6mn currently.
- Best-ever operating performance by overseas subsidiaries:** Revenue grew 27% YoY/11% QoQ to Rs 8.1bn; EBITDA margin expanded ~850bps YoY/90bps QoQ to 11.7%.
- Capex and leverage:** The management has guided a capex (including overseas subsidiaries) of Rs 2.5bn for FY22E (vs. earlier guidance of ~Rs 3bn). Standalone net debt was ~8% lower YoY but 15% higher QoQ at Rs 10.8bn; net debt/equity was stable at 0.2x.

Outlook and valuation: We estimate BHFC to deliver revenue/EBITDA/PAT CAGRs of 30%/72%/194% between FY21-23E. We expect FCF yield of 3% in FY23E with an improvement in profitability.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	13,718	12,808	7.1	11,647	17.8
EBITDA	3,910	2,946	32.7	2,783	40.5
EBITDA Margin (%)	28.5	23.0	550	23.9	461
Adj PAT	2,281	1,631	39.9	1,472	55.0
Adj EPS	4.9	3.5	39.9	3.2	55.0

Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 2: Quarterly performance

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Tonnage ('000 kg)	17,840	40,775	50,943	55,837	53,512	200.0	(4.2)
Net Sales	4,270	8,815	10,357	13,073	13,718	221.3	4.9
- Raw Material	1,844	3,204	3,831	5,266	5,211	182.5	(1.0)
(% of Net Sales)	43.2	36.3	37.0	40.3	38.0	(521)	(229)
- Staff Expenditure	1,138	1,108	1,102	1,134	1,216	6.9	7.2
(% of Net Sales)	26.6	12.6	10.6	8.7	8.9	(1,778)	19
- Other Expenditure	1,270	2,843	3,092	3,342	3,381	166.2	1.2
(% of Net Sales)	29.8	32.3	29.9	25.6	24.6	(510)	(91)
Total Expenditure	4,252	7,155	8,025	9,742	9,809	130.7	0.7
EBITDA	17	1,660	2,333	3,332	3,910	22,513.0	17.3
EBITDA Margin (%)	0.4	18.8	22.5	25.5	28.5	2,810	301
Depreciation	808	883	964	1,006	1,019	26.1	1.3
EBIT	-791	777	1,369	2,326	2,891	(465.4)	24.3
Interest	299	75	268	137	406	35.7	197.1
Other Income	420	313	352	320	336	(19.9)	5.1
Exceptional Items	-46	-123	-239	251	-612	1,243.4	(344.0)
PBT	-716	892	1,214	2,760	2,209	(408.4)	(20.0)
Tax	-153	189	287	705	540	(452.8)	(23.5)
Tax rate (%)	21.4	21.2	23.6	25.6	24.4	307	(112)
Reported PAT	-563	703	927	2,054	1,669	(396.4)	(18.8)
Adjusted PAT	-518	826	1,166	1,804	2,281	(540.8)	26.5
Adjusted EPS (Rs)	-1.1	1.8	2.5	3.9	4.9	(540.8)	26.5
EBITDA/ton	1	41	46	60	73	7,438.8	22.4
Net ASP (Rs/kg)	239	216	203	234	256	7.1	9.5

Source: Company, Systematix Institutional Research

Exhibit 3: Standalone revenue break-up

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
India							
CV	330	916	1,657	2,222	1,271	285.2	(42.8)
% contri	19.7	21.9	31.6	38.6	27.9	819	(1,070)
Industrial	1,020	2,119	2,243	2,049	1,836	80.0	(10.4)
% contri	60.8	50.5	42.8	35.6	40.2	(2,056)	469
PV	76	616	778	691	592	678.9	(14.3)
% contri	4.5	14.7	14.8	12.0	13.0	845	99
Total	1,678	4,192	5,240	5,763	4,562	171.9	(20.8)
Exports							
CV	822	1,648	3,167	3,958	4,538	452.1	14.7
% contri	31.7	35.6	61.9	54.1	49.6	1,785	(458)
Industrial	1,198	1,787	898	1,715	3,019	152.0	76.0
% contri	46.2	38.7	17.5	23.5	33.0	(1,325)	951
PV	572	1,188	1,053	1,637	1,599	179.5	(2.3)
% contri	22.1	25.7	20.6	22.4	17.5	(460)	(493)
Total	2,592	4,623	5,118	7,310	9,156	253.2	25.3

Source: Company, Systematix Institutional Research

Exhibit 4: Overseas subsidiaries financials

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Total Income	6,374	3,493	6,191	7,303	8,099	27.1	10.9
EBITDA	204	-334	562	789	951	366.2	20.5
EBITDA Margin (%)	3.2	-9.6	9.1	10.8	11.7	854	94
PBT	-357	-952	-82	347	309	(186.6)	(11.0)

Source: Company, Systematix Institutional Research

Exhibit 5: Standalone debt and net debt/equity

(Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Debt	31,836	36,683	37,589	36,203	37,990	19.3	4.9
Equity	53,477	55,380	56,709	59,486	61,032	14.1	2.6
Cash	20,036	24,717	26,374	26,809	27,148	35.5	1.3
Net debt	11,800	11,966	11,215	9,394	10,842	(8.1)	15.4
D/E	0.6	0.7	0.7	0.6	0.6	5	2
D/E (Net)	0.2	0.2	0.2	0.2	0.2	(19)	12

Source: Company, Systematix Institutional Research

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

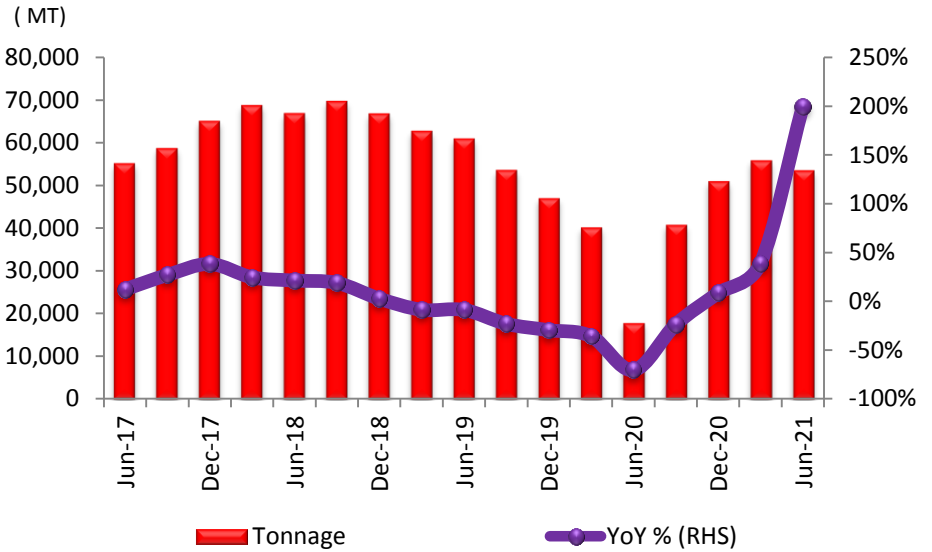
(Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
India CV	5,070	6,342	7,462	8,050	10,380	10,988	5,182	5,110	7,154	10,016
India PV	2,002	2,109	1,653	1,476	2,043	2,361	2,263	2,161	2,485	2,932
India non auto	5,606	6,238	6,304	7,148	7,895	10,107	8,058	7,446	10,052	12,063
India other OI	2,832	3,585	4,853	2,557	3,131	4,486	3,634	2,156	3,234	4,043
New AP plant									850	1,350
Total India	15,510	18,274	20,272	19,231	23,449	27,942	19,137	16,873	22,925	29,053
Export CV	10,861	12,936	14,205	9,883	12,807	15,816	12,702	9,591	16,305	18,750
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	10,832	12,782
Total exports	18,482	27,207	24,985	19,418	29,712	37,258	26,502	19,642	32,627	37,846
Total sales	33,992	45,481	45,257	38,649	53,161	65,200	45,639	36,515	56,402	68,249
Growth (%)										
India CV	-12%	25%	18%	8%	29%	6%	-53%	-5%	40%	40%
India PV	-14%	5%	-22%	-11%	38%	16%	-4%	0%	15%	18%
India non auto	10%	11%	1%	13%	10%	28%	-20%	-5%	35%	20%
India other operating income	14%	27%	35%	-47%	22%	43%	-19%	-40%	50%	25%
Total India	-1%	18%	11%	-5%	22%	19%	-32%	-12%	36%	27%
Export CV	19%	19%	10%	-30%	30%	23%	-20%	-32%	70%	15%
Export PV	5%	161%	91%	14%	23%	61%	12%	-14%	22%	15%
Export non auto	13%	83%	-34%	-17%	94%	20%	-48%	-40%	95%	18%
Total exports	16%	47%	-8%	-22%	53%	25%	-29%	-26%	66%	16%
Total sales	8%	34%	0%	-15%	38%	23%	-30%	-20%	54%	21%

Source: Company, Systematix Institutional Research

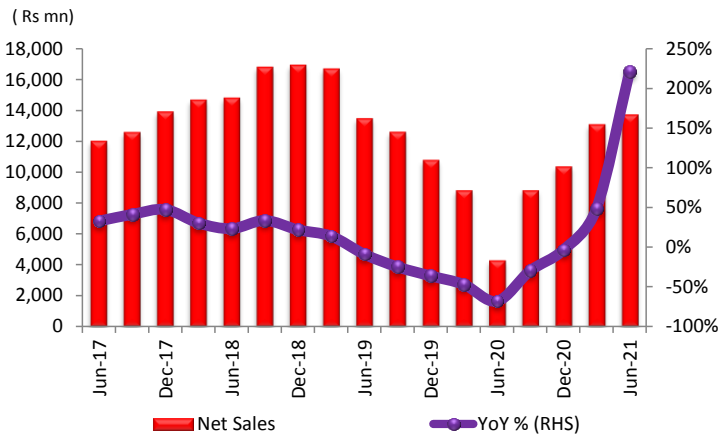
Exhibit 7: Various artillery programmes

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
Total	4,000	600

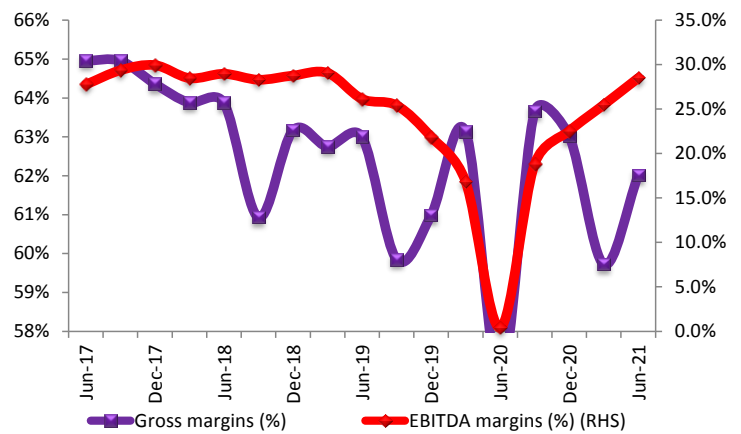
Source: Industry, Systematix Institutional Research

Exhibit 8: BHFC's tonnage and growth trend

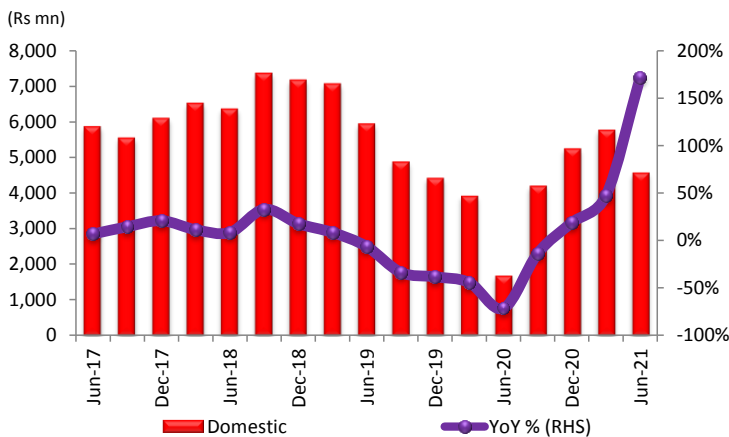
Source: Company, Systematix Institutional Research

Exhibit 9: Net sales and growth trend

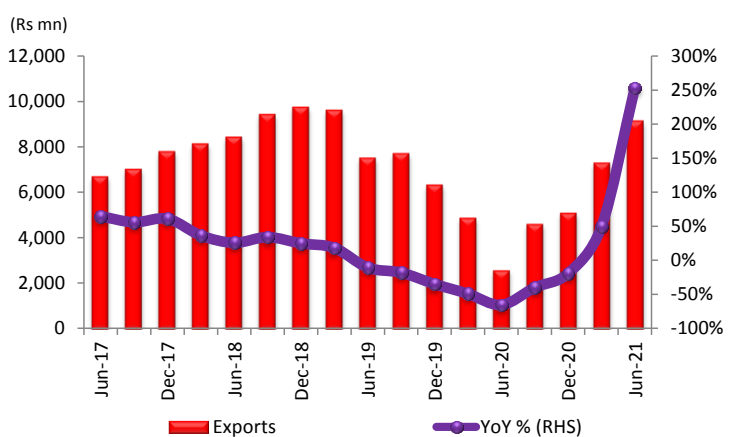
Source: Company, Systematix Institutional Research

Exhibit 10: Gross and EBITDA margin trend

Source: Company, Systematix Institutional Research

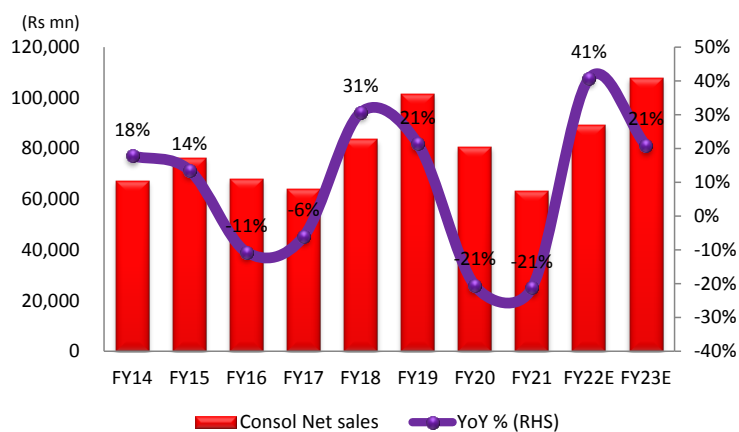
Exhibit 11: Domestic revenue and growth trend

Source: Company, Systematix Institutional Research

Exhibit 12: Export revenue and growth trend

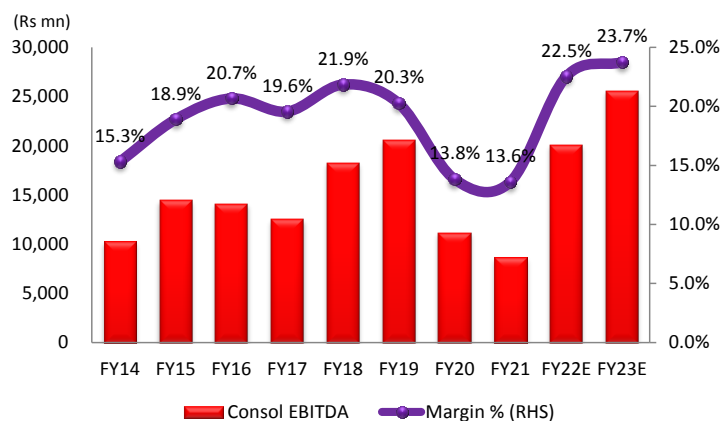
Source: Company, Systematix Institutional Research

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
Net sales	101,458	80,558	63,363	89,131	107,709
Growth, %	22	(21)	(21)	41	21
RM expenses	(42,144)	(35,765)	(26,342)	(34,005)	(41,681)
Employee expenses	(12,463)	(11,955)	(10,711)	(11,757)	(12,961)
Other expenses	(26,295)	(21,691)	(17,693)	(23,300)	(27,499)
EBITDA	20,556	11,147	8,617	20,069	25,568
Growth, %	13	(46)	(23)	133	27
Margin, %	20	14	14	23	24
Depreciation	(5,208)	(5,477)	(6,122)	(6,303)	(6,610)
EBIT	15,348	5,670	2,496	13,766	18,958
Growth, %	12	(63)	(56)	452	38
Margin, %	15	7	4	15	18
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
Pre-tax profit	16,104	5,835	3,107	14,622	20,134
Tax provided	(5,664)	(1,125)	(1,015)	(3,382)	(4,646)
Profit after tax	10,440	4,711	2,092	11,240	15,488
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	10,326	3,492	(1,270)	11,240	15,488
Growth, %	18	(66)	(136)	(985)	38
Net Profit (adjusted)	10,326	4,282	1,793	11,240	15,488

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	4,754	5,751	4,729	12,690	24,368
Marketable securities	14,093	14,319	24,759	23,405	22,422
Debtors	21,478	14,938	14,096	18,552	21,526
Inventory	18,447	17,347	17,939	18,289	21,155
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	63,222	82,110
Investments	1,143	1,861	1,309	1,701	1,625
Gross fixed assets	55,517	64,772	78,373	82,123	86,373
Less: Depreciation	(19,275)	(24,752)	(30,874)	(37,177)	(43,787)
Add: Capital WIP	8,307	11,427	9,001	9,001	9,001
Net fixed assets	36,242	40,020	47,500	44,947	42,587
Total assets	116,421	115,628	131,778	142,275	157,744
Current liabilities	19,864	15,612	22,005	23,856	27,159
Provisions	2,069	2,707	3,006	3,156	3,314
Total current liabilities	21,933	18,319	25,011	27,012	30,473
Debt	37,728	43,481	49,954	48,140	45,592
Total liabilities	59,661	61,800	74,964	75,152	76,065
Paid-up capital	931	931	931	931	931
Reserves & surplus	52,829	51,266	53,220	63,529	78,085
Shareholders' equity	54,058	52,517	54,468	64,777	79,333
Total equity & liabilities	116,421	115,628	131,778	142,275	157,744

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	16,104	5,046	-441	14,622	20,134
Depreciation	5,208	5,477	6,122	6,303	6,610
Chg in working capital	(9,239)	6,018	4,460	(4,049)	(3,749)
Total tax paid	(5,664)	(1,125)	(1,015)	(3,382)	(4,646)
CFO	5,183	15,220	10,200	12,638	17,173
Capital expenditure	(10,996)	(9,571)	(8,905)	(3,750)	(4,250)
Chg in investments	(556)	(556)	(555)	(555)	(554)
Chg in marketable securities	331	(388)	(9,332)	1,517	1,613
CFI	(9,193)	(11,322)	(15,111)	(773)	(922)
Free cash flow	(6,369)	5,092	740	8,333	12,369
Debt raised/(repaid)	9,492	1,168	7,031	(1,814)	(2,548)
Dividend (incl. tax)	(2,497)	(2,355)	(2,065)	(931)	(931)
CFF	5,723	(2,900)	3,888	(3,903)	(4,573)
Net chg in cash	1,713	997	(1,022)	7,961	11,678
Opening cash balance	3,041	4,754	5,751	4,729	12,690
Closing cash balance	4,754	5,751	4,729	12,690	24,368

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	22.2	9.2	3.8	24.1	33.3
PER (x)	37.3	89.9	214.8	34.3	24.9
Price/Book (x)	7.2	7.4	7.1	6.0	4.9
EV/EBITDA (x)	19.7	36.6	47.1	19.8	15.0
EV/Net sales (x)	4.0	5.2	6.4	4.5	3.6
RoE (%)	21	8	3	19	22
RoCE (%)	20	8	4	14	18
Fixed Asset turnover (x)	1.8	1.2	0.8	1.1	1.2
Dividend Yield (%)	0.7	0.2	0.2	0.2	0.2
Receivable (days)	78	69	82	76	73
Inventory (days)	83	91	120	97	94
Payable (days)	62	54	80	68	67
Revenue Growth (%)	22	(21)	(21)	41	21
EBITDA Growth (%)	13	(46)	(23)	133	27
EPS Growth, %	7	(59)	(58)	527	38
Net D/E ratio (x)	0.4	0.4	0.4	0.2	(0.0)

Source: Company, Systematix Institutional Research

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