

Retail Equity Research  
**Bharat Forge Ltd**  
Automobile – Auto Ancillaries

**Buy**

BSE CODE : 500493      NSE CODE: BHARATFORG  
BLOOMBERG CODE: BHFC:IN      SENSEX : 52,100

12 Months Investment Period      Rating as per Large Cap  
**CMP Rs. 751 TARGET Rs. 850 RETURN 13%** ↑  
(Closing: 04-06-21)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↑

**Strong export momentum to continue...**

Bharat Forge Ltd (BFL) is a leading player in the forgings industry. The company is serving several sectors including automobile, power, oil and gas, rail & marine, aerospace & defence, construction, mining, etc.

- Q4FY21 has witnessed a standalone revenue growth of 26.2%QoQ on the back of 43% growth in exports (US truck sales and Oil & Gas) and 9.6% growth in domestic revenues.
- Despite cost inflationary pressure, margin expanded by 680bps from Q3FY21, owing to superior product mix and cost control initiatives.
- The demand for US class 8 truck sales will continue to remain robust for FY22. The US truck order book grew by 273%YoY for Q4FY21. However, India truck demand is likely to be weak for H1FY22 and expect steady recovery from H2.
- Government's initiative to enhance local manufacturing through the announcement of Production linked schemes (PLI) & mission of Atma Nirbharata in defense, has started opening new orders for BFL.
- Amid crisis, the demand visibility looks robust on a medium basis for BFL, owing to growth coming from the export and defence sector and thus reiterate our Buy rating.

**Recovery in the commercial vehicle sector**

In Q4FY21 total Revenues grew by 26.2%QoQ, on back a strong 42.9% growth in export revenues and 9.6% growth in domestic revenues. The year has ended on a strong note with sharp recovery visible in all the end markets. EBITDA in Q4 FY21 has grown by 67.1%QoQ to Rs359cr. EBITDA margins at 27.5% have expanded by 680bps as compared to Q3FY21. For Q4, CV/PV/Industrial export grew by 69%/48%/22% respectively. However, India truck demand is likely to be weak for H1FY22 and expect steady recovery from H2. On the other hand domestic truck market grew by 34%.QoQ owing to pent up demand. We expect strong traction in Agriculture, Mining, Construction, defence and Railways. Additionally, with the gradual re-opening of the domestic economy, revival of CV financing and improvement in the supply chain will support growth.

**Domestic defence procurement to benefit BFL**

Government's initiative to enhance local manufacturing through the announcement of PLI scheme and mission of Atma Nirbharata, BFL has announced a capex of Rs2.4bn in the next few years for new defense and e-mobility initiatives. Over the last few years BFL has invested in technology to transform from a component supplier to sub assembly defense system supplier. It has developed new platform such as Artillery guns, air defense systems and armored vehicles. Once the procurement begins on a large scale, the company will be able to supply these products on a Global basis. Recently BFL has bagged Rs178cr order from Defence ministry to manufacture Kalyani M4 vehicles and expected to induct further order going forward. On the Aerospace the company has already set the target to reach 1000cr by FY2023 from current Rs400cr.

**Newer initiatives to support long term growth**

Market shift towards light weighting components for Electric vehicles, represents a considerable growth opportunity for BFL in coming years both in terms of top-line and margin. We expect the incremental revenue from new business/products to grow at double digit in the next 2 years. Sustained and meaning macroeconomics revival, pick up in infra projects, and roadmap for scrappage policy are the critical factors for growth in the CV Industry. We expect meaning full recovery in FY22 and factor 29%YoY consolidated revenue growth.

**Valuations**

BFL's strategy to shift to new technological products and ramp-up in Aluminium forging in US & India for new product development are on track and will bring value migration per vehicle in the long run. Sharp recovery in the export market is likely to say for the year. We believe the demand visibility looks attractive and expect margin expansion owing to the growth coming from the defence sector and sustained recovery in the auto space. We value BFL on premium at 18x EV/EBITDA on FY23E and reiterate our buy rating at CMP

**Company Data**

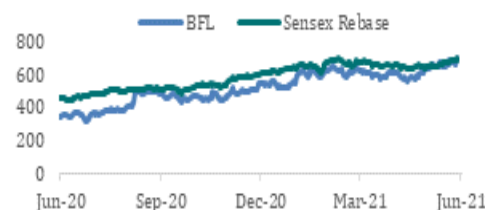
Market Cap (cr)	Rs.34,919
Enterprise Value (cr)	Rs.39,133
Outstanding Shares (cr)	46.6
Free Float	54.2%
Dividend Yield	0.5%
52 week high	Rs.790
52 week low	Rs.306
6m average volume (cr)	0.3
Beta	1.8
Face value	2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	45.8	45.8	45.8
FII's	21.9	23.5	24.9
MFs/Insti	11.5	12.3	12.2
Public	20.8	18.5	17.1
Total	100.0	100.0	100.0

**Price Performance**

	3 month	6 Month	1 Year
Absolute Return	12.6%	25.9%	103.8%
Absolute Sensex	3.6%	15.9%	53.7%
Relative Return	9.0%	10.1%	50.1%

\*over or under performance to benchmark index



**Consolidated (cr)**

	FY21	FY22E	FY23E
Sales	6,336	8,201	10,321
Growth (%)	-21.3	29.4	25.8
EBITDA	862	1,624	2,223
EBITDA Margin(%)	13.6	19.8	21.5
PAT Adj.	179	758	1,234
Growth (%)	-58.1	323.0	62.7
Adj. EPS	3.9	16.3	26.5
Growth (%)	-58.1	323.0	62.7
P/E	194.8	46.1	28.3
P/B	6.4	6.2	5.5
EV/EBITDA	45.4	24.3	17.5
ROE (%)	3.4	13.7	20.7
D/E	0.8	0.8	0.7

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
<b>Sales</b>	<b>1307</b>	<b>881</b>	<b>48.4</b>	<b>1036</b>	<b>26.2</b>
<b>EBITDA</b>	<b>359</b>	<b>110</b>	<b>225.5</b>	<b>215</b>	<b>67.1</b>
EBITDA margins	27.5	12.5	-	20.7	680bps
Depreciation	101	85	18.8	96	4.4
<b>EBIT</b>	<b>258</b>	<b>26</b>	<b>-</b>	<b>118</b>	<b>118.1</b>
Interest	13.7	41.5	-67.1	26.8	-49.1
Other Income	32	31	1.5	35	-9.3
Exceptional Items	-1	-939	0	-5	-85.3
<b>PBT</b>	<b>276</b>	<b>-78</b>	<b>-</b>	<b>121</b>	<b>127.3</b>
Tax	71	-5	-	29	145.9
Share of profit from Associate	0	0	0	0	0.0
Minority Interest	0	0	0	0	-
<b>Reported PAT</b>	<b>205</b>	<b>-73</b>	<b>-</b>	<b>93</b>	<b>-</b>
Adjustments	1	939	0	5	-
<b>Adj PAT</b>	<b>206</b>	<b>21</b>	<b>900.1</b>	<b>98</b>	<b>110.0</b>
No. of Shares	46.6	46.6	-	46.6	-
<b>EPS (Rs)</b>	<b>4.4</b>	<b>0.4</b>	<b>900.1</b>	<b>2.1</b>	<b>110.0</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	8,063	9,969	8,201	10,321	1.7	3.5
EBITDA	1492	2123	1624	2223	8.8	4.7
Margins (%)	18.5	21.3	19.8	21.5	130bps	20bps
Adj. PAT	699	1188	758	1234	8.5	3.9
EPS	15	25.5	16.3	26.5	8.6	3.9

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Sales</b>	10146	8056	6336	8201	10321
% change	21.4	-20.6	-21.3	29.4	25.8
<b>EBITDA</b>	2056	1115	862	1624	2223
% change	19.3	-45.8	-22.7	88.4	36.9
Depreciation	521	548	612	646	682
<b>EBIT</b>	1535	567	250	978	1541
Interest	127	171	108	119	119
Other Income	203	188	169	221	310
<b>PBT</b>	1610	505	5	1080	1731
% change	34.6	-68.7	-99.1	-	60.3
Tax	566	112	102	292	467
Tax Rate (%)	35.2	22.3	-	27.0	27.0
<b>Reported PAT</b>	1033	349	-127	758	1234
Adj.	0	-79	-306	0	0
<b>Adj. PAT</b>	1033	428	179	758	1234
% change	21.6	-58.5	-58.1	323.0	62.7
No. of shares (cr)	46.6	46.6	46.6	46.6	46.6
<b>Adj EPS (Rs)</b>	22.2	9.2	3.9	16.3	26.5
% change	21.6	-58.5	-58.1	323.0	62.7
DPS (Rs)	5.3	12.2	12.2	12.2	12.2
	33.4	21.0	17.0	30.2	41.1

### CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	2131	1052	617	1726	2413
Non-cash adj.	-448	-97	100	-194	-383
Changes in W.C	-1061	1070	215	-39	515
<b>C.F. Operation</b>	<b>623</b>	<b>2026</b>	<b>932</b>	<b>1493</b>	<b>2545</b>
Capital exp.	-1133	-1101	-967	-810	-663
Change in inv.	-521	-449	-776	-596	-650
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>-1166</b>	<b>-1239</b>	<b>-1986</b>	<b>-1200</b>	<b>-1253</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	1062	106	701	400	-400
Dividends paid	-245	-566	-566	-566	-566
Other finance.CF	-127	-171	780	-119	-119
<b>C.F - Finance</b>	<b>690</b>	<b>-632</b>	<b>915</b>	<b>-286</b>	<b>-1086</b>
Chg. in cash	146	155	-138	8	207
Closing cash	349	504	366	373	580

### BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	349	504	366	373	580
Accounts Receivable	2148	1494	1494	1685	1494
Inventories	1845	1735	1794	1509	1785
Other Cur. Assets	658	575	629	786	707
Investments	2186	2166	3148	3529	4206
Gross Fixed Assets	8451	9244	10464	11064	11664
Net Fixed Assets	3561	3806	4414	4368	4286
CWIP	831	1143	900	1106	1166
Intangible Assets	63	60	50	53	56
Def. Tax (Net)	-206	-51	-145	-123	-88
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>11435</b>	<b>11432</b>	<b>12650</b>	<b>13287</b>	<b>14192</b>
Current Liabilities	620	1000	1116	1143	1412
Provisions	207	271	301	382	481
Debt Funds	3773	3878	4580	4980	4580
Other Liabilities	0	0	0	0	0
Equity Capital	93	93	93	93	93
Reserves & Surplus	5376	5159	5354	5546	6214
Shareholder's Fund	5469	5252	5447	5639	6307
<b>Total Liabilities</b>	<b>11435</b>	<b>11432</b>	<b>12650</b>	<b>13287</b>	<b>14192</b>
BVPS	116	112	116	120	134

### RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	20.3	13.8	13.6	19.8	21.5
EBIT margin (%)	15.1	7.0	3.9	11.9	14.9
Net profit mgn.(%)	10.2	5.3	2.8	9.2	12.0
ROE (%)	20.3	8.0	3.4	13.7	20.7
ROCE (%)	12.7	5.7	-19.6	8.2	12.3
<b>W.C &amp; Liquidity</b>					
Receivables (days)	73.9	82.5	86.1	70.7	56.2
Inventory (days)	57.6	81.1	101.6	73.5	58.2
Payables (days)	48.4	54.3	64.5	52.3	45.2
Current ratio (x)	6.8	3.8	3.4	3.2	2.8
Quick ratio (x)	4.0	2.0	1.7	1.8	1.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.2	0.9	0.6	0.8	0.9
Total asset T.O (x)	1.0	0.7	0.5	0.6	0.8
Int. covge. ratio (x)	12.1	3.3	2.3	8.2	12.9
Adj. debt/equity (x)	0.5	0.7	0.8	0.8	0.7
<b>Valuation</b>					
EV/Sales (x)	3.8	4.8	6.2	4.8	3.8
EV/EBITDA (x)	18.7	34.4	45.4	24.3	17.5
P/E (x)	33.8	81.6	194.8	46.1	28.3
P/BV (x)	6.4	6.6	6.4	6.2	5.5

## Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
13 <sup>th</sup> March 18	Hold	789
29 <sup>th</sup> May 18	Buy	753
31 <sup>st</sup> August 18	Buy	751
28 <sup>th</sup> December 18	Buy	579
18 <sup>th</sup> February 19	Hold	494
24 <sup>th</sup> May 19	Buy	518
19 <sup>th</sup> August 19	Reduce	376
12 <sup>th</sup> November 19	Reduce	414
17 <sup>th</sup> February 20	Hold	507
14 <sup>th</sup> July 20	Hold	375
19 <sup>th</sup> August 20	Hold	535
17 <sup>th</sup> November 20	Buy	570
25 <sup>th</sup> February 21	Buy	723
07 <sup>th</sup> June 21	Buy	850

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10% - 15%	Upside is between 10% - 20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated</b>	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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