

Result Update

Q2 FY24

Bharat Forge Ltd.

Institutional
Research

Robust growth and profitability surge bolster future prospects

Bharat Forge Limited (BFL), a leading global provider of high-performance automotive, defense, and engineering solutions, reported robust performance in Q2FY24. The company's standalone revenue soared by an impressive 20.7% YoY / 5.7% QoQ, reaching Rs. 2,249.4 crores, reflecting the company's continued momentum led by growth across both domestic (up 21% YoY) and export revenues (up 21% YoY). BFL saw stellar performance on the exports front, with PV exports growing 39% YoY. Growth in domestic revenues was driven by a 1.5X increase in the defense business. Standalone EBITDA grew 36.2% YoY / 11.3% QoQ to Rs. 616 crores, excluding forex gains, with margins at 24.3% (up 140 bps QoQ / up 310 bps YoY). The margin expansion was primarily attributed to the effective utilization of operational leverage, a dedicated emphasis on stringent cost control measures and a better product mix. Accompanying this growth, the profitability surged 29% YoY / 11.1% QoQ to Rs. 346 crores. Notably, the company demonstrated its commitment to financial prudence with a substantial debt reduction of Rs. 307 crores, which significantly contributed to the improvement in Return on Capital Employed (ROCE) to 19.9% from 16.2% in FY23. In H1FY24, the standalone business secured new orders totaling Rs. 740 crores across various segments, with an impressive Rs. 300 crores allocated for E-Mobility programs, further solidifying the company's position in the evolving automotive landscape. The defense vertical, KSSL, exhibited remarkable progress with the acquisition of new business worth Rs 1,100 crores during the quarter, contributing to a robust executable order book of Rs 3,000 crores over the next 24 months.

Sector Outlook

Positive

Stock

CMP (Rs.)	1,053
BSE code	500493
NSE Symbol	BHARATFORG
Bloomberg	BHFC IN
Reuters	BRFG.BO

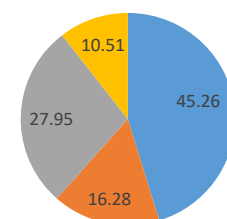
Key Data

Nifty	19,407
52 Week H/L (Rs.)	1,147 / 744
O/s Shares (Mn)	465.6
Market Cap (Rs.)	501
Face Value (Rs.)	2

Average Volume

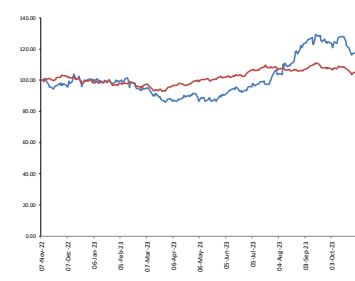
3 months	1,283,510
6 months	1,208,730
1 year	1,213,900

Share Holding (%)



■ Promoters ■ FII ■ DII ■ Others

Relative Price Chart



Research Analyst

Dhruv K. Mudaraddi
 dhruv.m@bpwealth.com
 +022-61596139

Key Highlights (Standalone)

Particulars (Rs. mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Net Sales	18,639	21,273	22,494	20.7%	5.7%
Gross profit	10,358	11,853	12,750	23.1%	7.6%
Gross margin (%)	55.6%	55.7%	56.7%	110bps	100bps
EBITDA	4,523	5,533	6,160	36.2%	11.3%
OPM (%)	24.3%	26.0%	27.4%	310bps	140bps
Adj. PAT	2,682	3,114	3,460	29.0%	11.1%
EPS (Rs.)	5.8	6.7	7.4	29.0%	11.1%

Source: Company, BP Equities Research

Valuation and Outlook

The Passenger Vehicles segment emerged as a key growth driver, showcasing consistent strength over the past quarters, marked by increasing market share, rising value addition and a surge in order wins from newer geographies and customers. Presently, this sector accounts for approximately 25% of the company's exports and is expected to sustain its key contribution in driving the group's growth trajectory supported by the burgeoning middle class and higher disposable income. Despite a seasonally weak quarter in the European market, the overseas operations displayed promising improvement, aligning with the enhanced capacity utilization of the Aluminium business. We remain optimistic about the path to profitability for the overseas business, which is expected to be bolstered by achieving profitability in the aluminum business and executing product and manufacturing optimization in the steel business within the next 12 to 18 months. With a positive outlook and a solid foundation for continued growth, we expect the company to maintain the current momentum in its businesses, supported by strong cash flow generation and a robust order book during the second half of FY24.

"The repowering test trucks have covered 200,000 km in test runs and 20,000 km in actual loaded customer use, showing promising development for the future.."

Key Concall Highlights

- The figures posted in H1FY24 were higher than the entire FY20 in terms of top-line, EBITDA, and PBT, despite 40% lower volumes, attributed to a better product mix, cost initiatives, and transitioning from component to product.
- The capital expenditure (capex) in the first six months was Rs. ~170 crores for the standalone business.
- The capital expenditure at the subsidiary level, especially in the US and Europe, is on track, with current capacity utilization for the aluminum business at 50% and 70%, respectively.
- In terms of Indian subsidiaries, especially in the industrial business, the first quarter of the ISML acquisition consolidation has yielded positive results, contributing to the overall EPS. JS Auto, the casting venture, secured new business during the quarter, witnessing a 28% growth in sales and a 38% increase in EBITDA, including the acquisition expenses towards ISML charged off to the P&L. However, the progress is hindered by structural challenges in the wind industry and softness in construction and mining, the two major sectors for JSA.
- The company's CV exports reached an all-time high of ~Rs. 550 crores, despite markets still being down 10% to 15% from their peak. Industrial exports also achieved a high point, even though the oil and gas business observed a decline of almost 60% from its peak in Q2FY19. This not only reduced cyclicalities but also improved the profitability of the industrial business.
- In terms of defense, the company secured orders worth over Rs. 1,100 crores from multiple customers and product segments to be executed over the next 24 months. The order pipeline remains strong across both capital and revenue products, with a steady increase in the defense order book, encompassing artillery systems, unmanned vehicle components, solutions for naval forces, and unmanned systems.
- On the e-mobility front, the company has signed orders worth Rs. 300 crores with global OEMs. The orders are for the repowering business for trucks and buses and the company is already running proof of concepts (POCs) with the OEMs. The test trucks have covered 200,000 km in test runs and 20,000 km in actual loaded customer use, showing promising development for the future.
- The company is facing challenges in the wind energy sector due to its capital-intensive nature. Additionally, increasing interest costs is affecting the industry, compounded by the negative real GDP growth in various parts of the world due to inflation rates ranging from 5% to 8%.

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Key Financials (Standalone)					
YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	36,515	64,546	75,727	89,519	98,695
Growth %	-20.0%	76.8%	17.3%	18.2%	10.3%
EBIDTA	7,348	16,805	19,233	23,876	27,103
Growth%	-27.6%	128.7%	14.5%	24.1%	13.5%
Net Profit	2,462	10,776	9,930	12,506	16,372
Growth %	-39.3%	337.7%	-7.9%	25.9%	30.9%
Diluted EPS	5.3	23.2	21.3	29.1	35.6
Profitability & Valuation					
EBIDTA (%)	20.1%	26.0%	25.4%	26.7%	27.5%
NPM (%)	6.7%	16.7%	13.1%	14.0%	16.6%
ROE (%)	5.5%	16.5%	14.1%	16.4%	17.3%
ROA (%)	3.0%	9.0%	7.7%	8.7%	9.8%
P/E (x)	200.4	45.8	49.7	36.5	29.8
EV/EBITDA (x)	39.8	20.5	20.5	22.1	19.4
Net Debt/EBITDA (x)	2.0	1.1	1.9	1.3	1.1

Source: Company, BP Equities Research



Research Desk

Tel: +91 22 61596138

Institutional Sales Desk

Tel: +91 22 61596403/04/05

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392