

Result Update

Q3 FY24

Bharat Forge Ltd.

Institutional
Research

Bharat Forge Ltd.



Auto Ancillary | Q3FY24 Result Update

14th February 2024

Healthy margins; Near term growth subdued

MSIL Bharat Forge's Q3FY24 standalone revenues witnessed a 1% QoQ / 16% YoY increase to Rs. 2,263 crores, driven by a notable 9% QoQ surge in the domestic business, attributable to enhanced supply of components to KSSL, while export revenues experienced a 6% QoQ decline across all segments. Standalone revenues were slightly below market estimates, primarily due to weakness in the export segment, offset by robust domestic performance. The adjusted standalone EBITDA came at Rs. 663 crores and the EBITDA margin stood at 28.5% (up 230 bps/ 190 bps YoY), surpassing market estimates, owing to improved gross margins at 58.1% (up 140bps QoQ / up 220 bps YoY) from a richer product mix and effective cost-control measures. Reported standalone PAT reached Rs. 380 crores (up 8.7% QoQ/ up 32.1% YoY).

In Q3FY24, domestic revenues soared 34% YoY, driven by a 75% YoY increase in the non-auto segment and a 3% YoY rise in the M&HCV segment, although partially offset by a 17% YoY decline in the PV segment revenues and weaker agricultural and construction segment performance. The export revenues faced a 6% QoQ decline in 3QFY24, falling short of estimates by 8%. This downturn was predominantly driven by a 2% QoQ decrease in PV segment revenues due to the completion of specific programs, a 4% QoQ decline in M&HCV segment revenues, and an 11% QoQ drop in the non-auto segment, primarily attributable to weakness in oil & gas segment revenues stemming from inventory correction measures. The company experienced subdued performance in European commercial vehicle sales, reflecting patchy economic recovery, with expectations of sustained weakness in forthcoming quarters. Despite challenges, Bharat Forge's overseas manufacturing operations showcased promising improvements, with the EBITDA margin climbing to 1.7% in 3QFY24 from 0.7% in the previous quarter. This growth was underpinned by operational leverage benefits and enhanced profitability in US operations, achieving EBITDA breakeven during the quarter. The company anticipates the US subsidiary to achieve profitability in 1QFY25E, driven by gradual demand recovery and price adjustments. However, the EU business witnessed a decline in EBITDA margin by 140 bps to 2.1% on a sequential basis in 3QFY24. The balance sheet remains robust with a cash reserve of Rs 1,000 crores, poised for further growth as new verticals expand and industrial sector presence strengthens.

Valuation and Outlook

Bharat Forge Ltd, a prominent Pune-based forging firm, reported adj. consolidated EBITDA below estimates in Q3FY24, primarily attributable to weaker-than-expected revenue and profitability in the EU business segment. The near-term outlook remains challenging due to a slowdown across key segments, with limited growth prospects in core businesses due to intensified competition in export markets and the looming risk of electrification in select segments, notably the PV and tractor segments, and oil & gas sector.

Key Highlights

Particulars (Rs. Mn)	Q3FY24	Q2FY24	Q3FY23	YoY (%)	QoQ (%)
Net Sales	22,634	22,494	19,521	15.9%	0.6%
Gross profit	13,143	12,750	10,920	20.4%	3.1%
Gross margin (%)	58.1%	56.7%	55.9%	220 bps	140 bps
EBITDA	6,632	6,068	5,351	23.9%	9.3%
OPM (%)	29.3%	27.0%	27.4%	190 bps	230 bps
Adj. PAT	3,778	3,476	2,860	32.1%	8.7%
EPS (Rs.)	8.1	7.5	6.1	32.8%	8.0%

Source: Company, BP Equities Research

Sector Outlook

Positive

Stock

CMP (Rs.)	1,108
BSE code	500493
NSE Symbol	BHA-RATFORG
Bloomberg	BHFC IN
Reuters	BFRG.NS

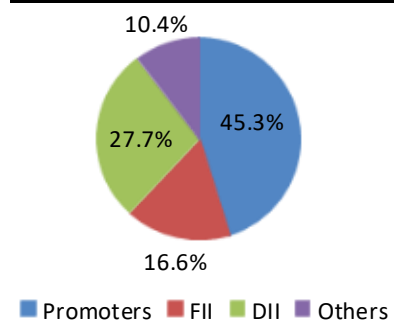
Key Data

Nifty	21,840
52 Week H/L (Rs.)	1,330/743
O/s Shares (Mn)	465.5
Market Cap (Rs. bn)	515.9
Face Value (Rs.)	2

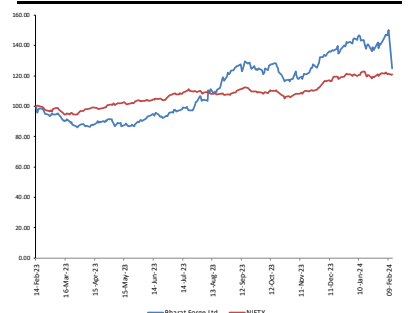
Average Volume

3 months	927,740
6 months	1,139,580
1 year	1,182,560

Share Holding (%)



Relative Price Chart



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Despite this, the domestic business displayed resilience in the India CV segment for 9MFY24, aligned with overall market trends, buoyed by government capex and infrastructure development initiatives. The India PV business anticipates growth through premiumization and the surge in Utility Vehicles, driven by an expanding middle class and higher disposable income. While the Industrial segment showcased positive results, sales to the Agri sector and Construction & Mining space witnessed a decline in the quarter. Overseas operations saw improvements in the Aluminium business in Europe, with similar expectations for the US plant, as the company strives for sustained profitability through enhancements in the aluminium and steel sectors over the next 12-18 months. Looking ahead to Q4 and FY25, moderate growth is anticipated in both domestic and export markets, with Bharat Forge aiming to outperform the market due to its diversified business mix and concerted efforts to tap new customers and markets across various geographies, particularly in Construction & Mining, Railways, Agri equipment, Aerospace, and other promising sectors.

Key Concall Highlights

- Orders valued at approximately Rs. 550 crores were secured by the standalone business in 3QFY24, compared to around Rs. 740 crores in 1HFY24 and approximately Rs. 500 crores in 2QFY24.
- The overall outlook appears mixed, with expectations of flat demand in the US commercial vehicle sector due to an emission norm change in 2027, potentially leading to pre-buy activity in 2024-26. The European demand remains uncertain, while growth trajectories are anticipated to continue in the PV and industrial segments. E-mobility and aluminum casting businesses are anticipated to contribute to profitability, with strong performance expected from European subsidiaries as US subsidiaries stabilize.
- Content for current electric vehicles include power and control electronics, with ongoing testing for motors, inverters, controllers, castings, and chassis components. Initial margins may not reach full potential, but return on capital employed is expected to improve.
- Defence order pipeline remains healthy, with cumulative orders at approximately Rs. 2,000 crores, largely for exports, to be executed over the next 24 months. Defence revenue run-rate is expected to reach Rs. 1,000 crores in FY24E, with aim to achieve Rs. 2,000- 2,500 crores going ahead. Defence margins at the aggregate level remain strong in double digits, supported by programs such as artillery and vehicle development for Naval and Air Force segments, alongside participation in new development programs both domestically and overseas, including ATAGs bidding.
- Aerospace revenues are expected to double annually for 2-3 years, with exports currently accounting for over 80% of segment revenues.
- Non-auto exports declined, particularly in oil and gas, attributed to significant de-stocking at the customer end, with no significant volume improvement expected for 2-3 quarters.
- Domestic PV revenues were muted due to the completion of several programs, with anticipated growth driven by the commencement of new programs.
- JS Auto-Vestas business in Russia has decreased, but approximately Rs. 200 crores worth of orders across end-user segments has been acquired, with expected business margins to improve from the current ~14%.
- Capex stands at Rs. 500 crores, covering both Indian and overseas operations.
- Capacity utilization is at approximately 50% in the US and around 70% in Europe.
- Subsidiaries' performance is expected to yield overall mid to high single-digit margins, with the US achieving breakeven at the EBITDA level and anticipation for improvement ahead, while sharp improvement is expected in European subsidiaries' performance.

Key Financials

YE March (Rs. millions)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	80,558	63,363	1,04,611	1,29,103	1,56,358	1,74,779
<i>Revenue Growth (Y-o-Y)</i>	<i>(20.6%)</i>	<i>(21.3%)</i>	<i>65.1%</i>	<i>23.4%</i>	<i>21.1%</i>	<i>11.8%</i>
EBIDTA	11,191	8,634	19,897	17,790	26,396	32,219
<i>EBIDTA Growth (Y-o-Y)</i>	<i>0.7%</i>	<i>(22.9%)</i>	<i>130.5%</i>	<i>(10.6%)</i>	<i>48.4%</i>	<i>22.1%</i>
Net Profit	2,856	-1,915	11,181	4,727	11,125	16,266
<i>Net Profit Growth (Y-o-Y)</i>	<i>42.5%</i>	<i>(167.1%)</i>	<i>(684.0%)</i>	<i>(57.7%)</i>	<i>135.4%</i>	<i>46.2%</i>
Diluted EPS	6.1	(4.1)	24.0	10.2	23.9	34.9
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(83.2%)</i>	<i>(167.1%)</i>	<i>(684.0%)</i>	<i>(57.7%)</i>	<i>135.4%</i>	<i>46.2%</i>

Key Ratios

EBIDTA margin (%)	13.9%	13.6%	19.0%	13.8%	16.9%	18.4%
NPM (%)	3.5%	-3.0%	10.7%	3.7%	7.1%	9.3%
RoE (%)	6.6%	-2.4%	18.1%	8.0%	15.2%	19.7%
RoA (%)	3.0%	-1.0%	7.5%	3.1%	6.6%	10.1%

Valuation Ratios

P/E (x)	180.6x	-269.4x	46.1x	109.1x	46.4x	31.7x
EV/EBITDA	12.4x	35.3x	18.2x	23.2x	21.4x	17.5x
P/BV (x)	2.1x	5.1x	5.0x	5.4x	6.7x	5.7x
Market Cap. / Sales (x)	6.4x	8.1x	4.9x	4.0x	3.3x	3.0x

Source: Company, BP Equities Research



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