

# Bharat Forge (BHFC IN)

Pressing on

INDIA | AUTOMOBILES | Quarterly Update

12 August 2021

## Top takeaways from Q1FY22

- ✓ Standalone revenue grew 221% YoY, 5% QoQ to Rs 13.7bn on higher realizations owing to better mix despite lower volumes
- ✓ Realizations improved YoY (up 7%) and sequentially (up 9%) primarily due to higher commodity prices and favorable product and segment mix (higher exports, higher O&G)
- ✓ EBITDA margins were 28.5% on the back of better mix, operating leverage and cost savings; against a margin of 24.5% last quarter
- ✓ Adjusted PAT was Rs 2.3bn

**Key highlights:** Exports (up 25% QoQ) picked up sharply while domestic business (down 25%) was impacted by covid. Within exports, CVs and Industrial business did much better. Acquired Sanghvi Forging during the quarter for Rs 0.77bn.

## Conference call takeaways

- ✓ Oil & Gas revenue grew to Rs 1.5bn vs Rs 0.45bn las quarter
- ✓ Sanghvi forging will be consolidated from Q2; it will break even in current quarter and will be profitable going forward; it has capability for bigger products in renewables; can turn this into Rs 5-6bn business
- ✓ Expect Q2 to be better than Q1; growth to come from all segments
- ✓ Developed high volume light-weight aluminium oxygen cylinder within 100 days (including 45 days of testing); potentially a new business line in India and for exports
- ✓ Tork (2W EV sub) achieved FAME II homologation for multiple products
- ✓ Winning orders in EVs for products like e-axles, driveline products and chassis
- ✓ Class-8 truck backlog at 10 months of production; prodn. slots booked for this year and even for next year; chip shortage is affecting production; stimulus hasn't materialised yet
- ✓ Enough capacity in AI forging for next 3 years; will double revenues in 2-2.5 years; looking to add capacity as orders are more than capacity; incremental capex would be lower; US and Nellore plant to be at full capacity by FY23
- ✓ Domestic industrial growth driven by construction segment (engines and equipment)
- ✓ Capex to be Rs 2 -2.5bn for FY22 in India; Subs capex is done for now

**Outlook and valuation:** Exports have picked up materially post covid. Most of BHFC's segments have improved sequentially. Class 8 truck demand has expanded with high freight rates and strong outlook for rest of the year. High oil prices, pick up in PV production (lightweighting), EV and defense order wins, improving profitability in subs; all bode well for near to medium term. Semiconductor shortage is a transient headwind and we expect recovery to continue. Diversification through Defence, Lightweighting, Aerospace, Railways, Renewables etc. and leaner cost structure coming out of down cycle would result in improved profitability and reduced business risk going forward. We give impact of current quarter performance and raise our estimates slightly. We value the stock at 16x FY23 EV/EBITDA (1 st.dev. above long-term average). Maintain Buy with a target of Rs 970.

## BUY (Maintain)

CMP RS 828

TARGET RS 970 (+17%)

SEBI CATEGORY: MID CAP

## COMPANY DATA

O/S SHARES (MN) :	466
MARKET CAP (RSBN) :	385
MARKET CAP (USDBN) :	5.2
52 - WK HI/LO (RS) :	846 / 407
LIQUIDITY 3M (USDMN) :	26
PAR VALUE (RS) :	2

## SHARE HOLDING PATTERN, %

	Jun 21	Mar 21	Dec 20
PROMOTERS :	44.8	45.8	45.8
DII :	12.3	12.5	12.6
FII :	25.3	24.9	23.5
OTHERS :	17.6	16.8	18.2

## KEY FINANCIALS

Rs mn	FY21	FY22E	FY23E
Net Sales	63,363	92,893	113,950
EBITDA	8,617	20,482	28,905
Net Profit	(1,264)	11,039	17,179
EPS, Rs	(3)	24	37
PER, x	-	34.9	22.4
EV/EBITDA, x	49.8	20.9	14.5
PBV, x	7.1	6.0	4.9
ROE, %	(2.4)	18.6	23.9

## CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY22E	FY23E	FY22E	FY23E
Revenue	92,893	113,950	3.2%	4.2%
EBITDA	20,482	28,905	2.4%	4.7%
Core PAT	11,039	17,179	3.4%	6.0%
EPS (Rs)	23.7	36.9	3.4%	6.0%

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(Rs mn)	Q1FY22	Q1FY21	% change	Q4FY21	% change	vs est.	Comments
<b>Total revenues</b>	<b>13,718</b>	<b>4,270</b>	<b>221.3</b>	<b>13,074</b>	<b>4.9</b>	<b>12.9</b>	
Raw material	5,211	1,844	182.5	5,266	-1.0	5.5	
Staff costs	1,216	1,138	6.9	1,134	7.2	9.4	
Other expenses	3,381	1,270	166.2	3,336	1.4	9.0	
<b>EBITDA</b>	<b>9,809</b>	<b>4,252</b>	<b>130.7</b>	<b>9,736</b>	<b>0.8</b>	<b>7.1</b>	
EBITDA margin	<b>3,910</b>	<b>18</b>	<b>22126.7</b>	<b>3,338</b>	<b>17.1</b>	<b>30.5</b>	
Other income	28.5%	0.4%	2810bps	25.5%	300bps	380bps	
Interest	333	420	-20.7	320	4.2	1.1	
Depreciation	406	299	35.7	137	197.1	191.3	
<b>PBT</b>	<b>1,019</b>	<b>808</b>	<b>26.1</b>	<b>1,006</b>	<b>1.3</b>	<b>0.3</b>	
Tax	<b>2,818</b>	<b>(670)</b>	<b>-520.5</b>	<b>2,515</b>	<b>12.0</b>	<b>29.9</b>	
<b>Adjusted net profit</b>	<b>539</b>	<b>(153)</b>	<b>-452.1</b>	<b>705</b>	<b>-23.6</b>	<b>-1.5</b>	

## Financials

### Income Statement

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>80,558</b>	<b>63,363</b>	<b>92,893</b>	<b>113,950</b>
Growth, %	(20.6)	(21.3)	46.6	22.7
Other operating income	-	-	-	-
Raw material expenses	35,765	26,342	37,916	45,859
Employee expenses	11,955	10,711	11,381	12,160
Other Operating expenses	21,691	17,693	23,114	27,025
<b>EBITDA (Core)</b>	<b>11,147</b>	<b>8,617</b>	<b>20,482</b>	<b>28,905</b>
Growth, %	(45.8)	(22.7)	137.7	41.1
Margin, %	13.8	13.6	22.0	25.4
Depreciation	5,477	6,122	6,489	6,813
<b>EBIT</b>	<b>5,670</b>	<b>2,496</b>	<b>13,993</b>	<b>22,092</b>
Growth, %	(63.1)	(56.0)	460.7	57.9
Margin, %	7.0	3.9	15.1	19.4
Interest paid	1,713	1,077	1,099	1,121
Other Income	1,879	1,689	1,824	1,934
Non-recurring Items	-	-	-	-
<b>Pre tax profit</b>	<b>5,835</b>	<b>3,107</b>	<b>14,718</b>	<b>22,905</b>
Tax provided	1,125	1,015	3,680	5,726
<b>Profit after tax</b>	<b>4,287</b>	<b>1,798</b>	<b>11,039</b>	<b>17,179</b>
Minorities/JV shares	(423)	(294)	-	-
<b>Net Profit</b>	<b>3,498</b>	<b>(1,264)</b>	<b>11,039</b>	<b>17,179</b>
Growth, %	(58.5)	(58.1)	513.8	55.6
<b>Net Profit (adjusted)</b>	<b>3,498</b>	<b>(1,264)</b>	<b>11,039</b>	<b>17,179</b>
Unadj. shares (m)	466	466	466	466
Wtd avg shares (m)	466	466	466	466

### Balance Sheet

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
Cash & bank	5,751	4,729	5,001	14,615
Marketable securities at cost	10,661	20,772	20,772	20,772
Debtors	14,938	14,096	20,665	25,350
Inventory	17,347	17,939	25,822	31,231
Loans & advances	2,503	2,383	3,494	4,286
Other current assets	1,511	2,225	2,225	2,225
Total current assets	52,711	62,144	77,980	98,479
Investments	5,522	5,299	7,299	9,299
Gross fixed assets	94,888	108,536	112,036	115,536
<b>Less: Depreciation</b>	<b>(55,241)</b>	<b>(61,362)</b>	<b>(67,851)</b>	<b>(74,664)</b>
Add: Capital WIP	11,427	9,001	9,001	9,001
Net fixed assets	51,444	56,498	53,509	50,196
Non-current assets	5,952	7,837	7,837	7,837
<b>Total assets</b>	<b>115,628</b>	<b>131,778</b>	<b>146,625</b>	<b>165,811</b>
Trade Payables	10,309	12,068	17,371	21,010
Provisions	985	1,083	1,083	1,083
Total current liabilities	19,366	21,045	26,348	29,987
Non-current liabilities	59,362	69,596	74,899	78,538
Total liabilities	96,262	110,733	120,276	135,824
Paid-up capital	931	931	931	931
Reserves & surplus	51,266	53,220	62,763	78,311
Minorities	320	317	317	317
Shareholders' equity	52,517	54,468	64,011	79,559
<b>Total equity &amp; liabilities</b>	<b>115,628</b>	<b>131,778</b>	<b>146,625</b>	<b>165,811</b>

### Cash Flow

Y/E Mar, Rs mn	FY20	FY21	FY22E	FY23E
Pre-tax profit	5,046	45	14,718	22,905
Depreciation	5,477	6,122	6,489	6,813
Chg in working capital	8,154	1,334	(10,260)	(7,247)
Total tax paid	(1,125)	(1,015)	(3,680)	(5,726)
<b>Cash flow from operating activities</b>	<b>19,272</b>	<b>7,569</b>	<b>8,366</b>	<b>17,866</b>
Capital expenditure	(9,618)	(9,143)	(3,500)	(3,500)
Chg in investments	-	-	-	-
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(10,561)</b>	<b>(19,030)</b>	<b>(5,500)</b>	<b>(5,500)</b>
Free cash flow	10,094	(10,736)	3,691	13,207
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	2,268	8,554	-	-
Dividend (incl. tax)	(1,359)	(1,359)	(1,495)	(1,631)
<b>Cash flow from financing activities</b>	<b>(805)</b>	<b>6,117</b>	<b>(2,594)</b>	<b>(2,752)</b>
Net chg in cash	7,906	(5,344)	272	9,614

### Valuation Ratios

	FY20	FY21	FY22E	FY23E
<b>Per Share data</b>				
EPS (INR)	7.5	(2.7)	23.7	36.9
Growth, %	(66.1)	-	-	55.6
Book NAV/share (INR)	112.1	116.3	136.8	170.2
FDEPS (INR)	7.5	(2.7)	23.7	36.9
CEPS (INR)	19.3	10.4	37.6	51.5
CFPS (INR)	41.4	16.3	18.0	38.4
DPS (INR)	2.5	2.5	2.8	3.0

### Return ratios

Return on assets (%)	3.0	(1.0)	7.9	11.0
Return on equity (%)	6.6	(2.4)	18.6	23.9
Return on capital employed (%)	6.3	2.5	9.9	13.3
ROIC (%)	5.1	1.6	9.1	13.7

### Turnover ratios

Asset turnover (x)	1.6	1.1	1.7	2.3
Sales/Net FA (x)	1.6	1.1	1.7	2.3
Working capital/Sales (x)	2.4	1.5	1.8	1.7
Receivable days	82.5	83.6	68.3	73.7
Inventory days	182.6	244.5	210.6	227.0
Payable days	122.3	155.0	141.7	152.7
Working capital days	151.1	236.8	202.9	219.4

### Liquidity ratios

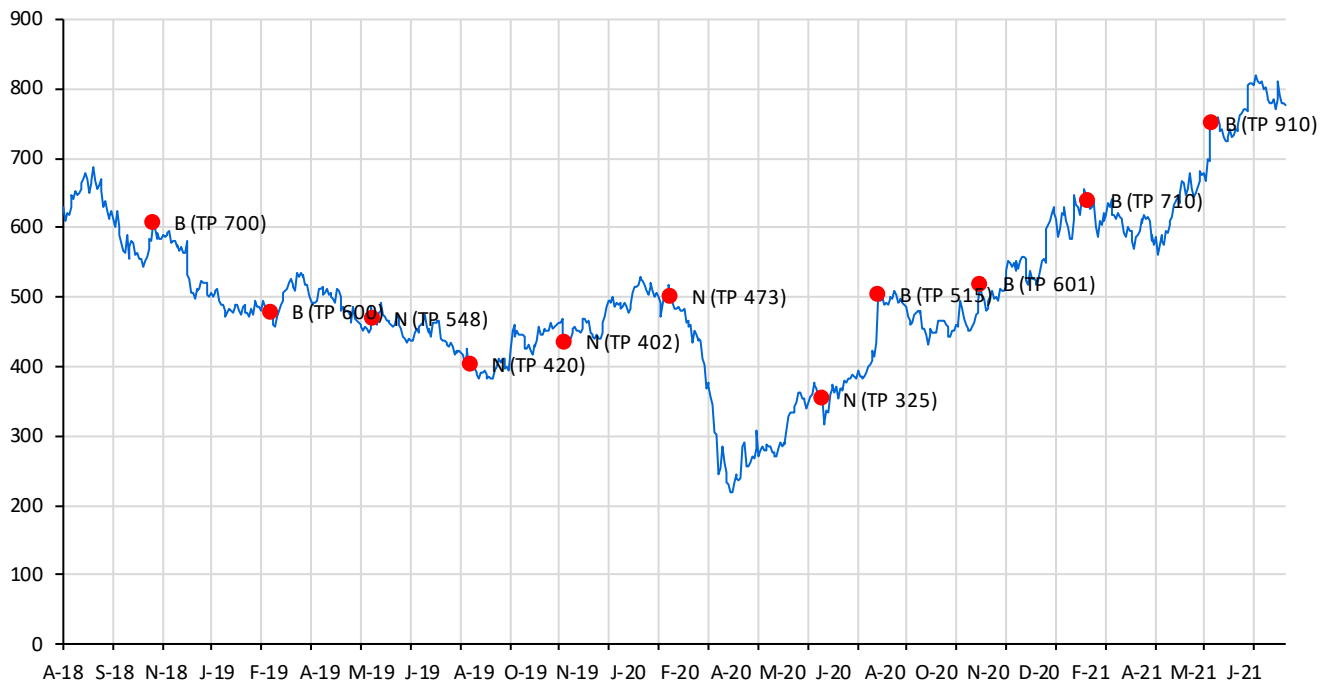
Current ratio (x)	2.7	3.0	3.0	3.3
Quick ratio (x)	0.4	0.4	0.4	0.5
Interest cover (x)	3.3	2.3	12.7	19.7
Total debt/Equity (x)	76.2	89.1	75.8	61.0
Net debt/Equity (x)	65.2	80.5	68.0	42.7

### Valuation

PER (x)	110.1	-	34.9	22.4
PEG (x) yoy growth	(1.7)	-	-	0.4
Price/Book (x)	7.4	7.1	6.0	4.9
EV/Net sales (x)	5.2	6.8	4.6	3.7
EV/EBITDA (x)	37.6	49.8	20.9	14.5
EV/EBIT (x)	74.0	171.9	30.6	19.0

Source: Company, PhillipCapital India Research

### Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

## Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

### Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$(10\% > \text{to} < +10\%)$	Target price is less than +10% but more than (10%
SELL	$\leq (10\%)$	Target price is less than or equal to (10%.

### Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$(15\% > \text{to} < +15\%)$	Target price is less than +15% but more than (15%
SELL	$\leq (15\%)$	Target price is less than or equal to (15%.

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