

# Bharat Forge | BUY

## Defence momentum to accelerate further

Indian Armed Forces has issued a tender to procure 400 155-mm 52-calibre towed artillery gun systems (TAGS) worth INR 65bn. Bharat Forge (BHFC) is expected to be one of the participants for this order amongst others. The company has a current defence order book of INR 54bn (excl. order for TAGS/ATAGS). Given the large opportunity size of TAGS/ATAGS in India (refer exhibit below) and globally, we expect strong revenue momentum to continue for BHFC and expect defence segment (CAGR of 45% over FY24-27E) to contribute 20%+ to its consol. revenue by FY27E. Maintain BUY with Sept'25 TP of INR 1,700 (35x forward earnings). Deferment / delay in defence order execution remains a key risk.

- Indian Armed Forces issues tender for TAGS / ATAGS:** As per various [media articles](#), Indian army has issued a tender for buying 400 155-mm 52-calibre towed artillery gun systems (TAGS) along with towing vehicles from Indian firms under the 'Buy Indian Designed, Developed and Manufactured' category. The tender value is worth INR 65bn for these 400 TAGS (i.e INR 162.5mn per TAGS).
- Large opportunity size; BHFC remains one of the key beneficiaries:** Company in one of its [earnings call indicated](#) that Indian Armed Forces requires [1,500 guns of ATAGS](#). Our calculations indicate, total opportunity size of INR c.244bn for 1,500 ATAGS for Indian Armed Forces stands. Additionally, Indian Armed Forces needs [another 2,500 guns](#) of different kinds ranging from Mounted Guns to tracked and self-propelled guns. Bharat Forge, having developed its own nine Artillery platforms, remains one of the key beneficiaries of these orders going forward. The company also indicated that another equal or more opportunity for it to export these Artillery platforms to other countries.
- Defence orders to drive strong growth in the medium-term:** BHFC has a defence orderbook of INR 54bn (domestic+exports) as on Jun'24. This is excluding the TAGS / ATAGS order from Indian Armed Forces and the company is expected to secure this order in the near-term. We expect BHFC's share in this order to be at ~30-40%. Overall, given the strong momentum in defence vertical, we expect this segment to grow at 45% CAGR over FY24-27E to INR 47.5bn (from INR c.15.5bn in FY24) and contribute 20%+ to the company's consolidated revenue by FY27E.

| Artillery Gun Systems (TAGS / ATAGS)                              |               |
|---|---------------|
| Current tender for TAGS / ATAGS (units)                           | 400           |
| Total order value (INR bn)  | 65.0          |
| Per unit value (INR mn)   | 162.5         |
|   |               |
| Total requirement of Indian Armed Forces over medium-term (units) | 1,500         |
| Per unit value (INR mn)   | 162.5         |
| <b>Opportunity size for TAGS / ATAGS in India (INR bn)</b>        | <b>243.8</b>  |
| BHFC's share (JMFe)   | 30-40%        |
| <b>TAGS / ATAGS opportunity size for BHFC (INR bn)</b>            | <b>~73-98</b> |

| Financial Summary      |          |          |          |          | (INR mn) |
|------------------------|----------|----------|----------|----------|----------|
| Y/E March              | FY23A    | FY24A    | FY25E    | FY26E    | FY27E    |
| Net Sales              | 1,29,103 | 1,56,821 | 1,77,965 | 1,98,394 | 2,19,309 |
| Sales Growth (%)       | 23.4     | 21.5     | 13.5     | 11.5     | 10.5     |
| EBITDA                 | 17,675   | 25,579   | 32,773   | 37,502   | 42,448   |
| EBITDA Margin (%)      | 13.7     | 16.3     | 18.4     | 18.9     | 19.4     |
| Adjusted Net Profit    | 5,742    | 9,635    | 16,589   | 20,517   | 24,378   |
| Diluted EPS (INR)      | 12.3     | 20.7     | 35.6     | 44.1     | 52.4     |
| Diluted EPS Growth (%) | -42.0    | 67.8     | 72.2     | 23.7     | 18.8     |
| ROIC (%)               | 6.7      | 9.8      | 15.0     | 16.8     | 18.7     |
| ROE (%)                | 8.7      | 13.9     | 21.2     | 22.1     | 21.9     |
| P/E (x)                | 128.5    | 76.6     | 44.5     | 36.0     | 30.3     |
| P/B (x)                | 11.0     | 10.3     | 8.7      | 7.3      | 6.1      |
| EV/EBITDA (x)          | 43.9     | 30.6     | 23.7     | 20.4     | 17.7     |
| Dividend Yield (%)     | 0.4      | 0.6      | 0.5      | 0.5      | 0.5      |

Source: Company data, JM Financial. Note: Valuations as of 16/Aug/2024



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### Recommendation and Price Target

|                            |       |
|----------------------------|-------|
| Current Reco.              | BUY   |
| Previous Reco.             | BUY   |
| Current Price Target (12M) | 1,700 |
| Upside/(Downside)          | 7.3%  |
| Previous Price Target      | 1,700 |
| Change                     | 0%    |

### Key Data – BHFC IN

|                          |                     |
|--------------------------|---------------------|
| Current Market Price     | INR1,585            |
| Market cap (bn)          | INR737.7/US\$8.8    |
| Free Float               | 53%                 |
| Shares in issue (mn)     | 465.6               |
| Diluted share (mn)       | 465.6               |
| 3-mon avg daily val (mn) | INR2,481.9/US\$29.6 |
| 52-week range            | 1,826/950           |
| Sensex/Nifty             | 80,437/24,541       |
| INR/US\$                 | 84.0                |

### Price Performance

| %         | 1M   | 6M   | 12M  |
|-----------|------|------|------|
| Absolute  | -2.3 | 39.7 | 63.2 |
| Relative* | -2.1 | 26.3 | 31.8 |

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

## Financial Tables (Consolidated)

| Income Statement            |                 | (INR mn)        |                 |                 |                 |  |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|
| Y/E March                   | FY23A           | FY24A           | FY25E           | FY26E           | FY27E           |  |
| Net Sales                   | 1,29,103        | 1,56,821        | 1,77,965        | 1,98,394        | 2,19,309        |  |
| Sales Growth                | 23.4%           | 21.5%           | 13.5%           | 11.5%           | 10.5%           |  |
| Other Operating Income      | 0               | 0               | 0               | 0               | 0               |  |
| <b>Total Revenue</b>        | <b>1,29,103</b> | <b>1,56,821</b> | <b>1,77,965</b> | <b>1,98,394</b> | <b>2,19,309</b> |  |
| Cost of Goods Sold/Op. Exp  | 59,614          | 73,792          | 81,686          | 90,864          | 1,00,224        |  |
| Personnel Cost              | 15,631          | 18,600          | 20,937          | 23,218          | 25,461          |  |
| Other Expenses              | 36,183          | 38,849          | 42,570          | 46,809          | 51,176          |  |
| <b>EBITDA</b>               | <b>17,675</b>   | <b>25,579</b>   | <b>32,773</b>   | <b>37,502</b>   | <b>42,448</b>   |  |
| EBITDA Margin               | 13.7%           | 16.3%           | 18.4%           | 18.9%           | 19.4%           |  |
| EBITDA Growth               | -12.3%          | 44.7%           | 28.1%           | 14.4%           | 13.2%           |  |
| Depn. & Amort.              | 7,356           | 8,482           | 8,638           | 9,093           | 9,488           |  |
| EBIT                        | 10,319          | 17,097          | 24,135          | 28,409          | 32,960          |  |
| Other Income                | 1,729           | 2,274           | 2,549           | 2,888           | 3,245           |  |
| Finance Cost                | 2,986           | 4,912           | 4,619           | 3,959           | 3,684           |  |
| PBT before Excep. & Forex   | 9,062           | 14,460          | 22,065          | 27,338          | 32,521          |  |
| Excep. & Forex Inc./Loss(-) | 0               | 0               | 0               | 0               | 0               |  |
| PBT                         | 9,062           | 14,460          | 22,065          | 27,338          | 32,521          |  |
| Taxes                       | 3,186           | 5,288           | 5,627           | 6,971           | 8,293           |  |
| Extraordinary Inc./Loss(-)  | -458            | -123            | -1,518          | 0               | 0               |  |
| Assoc. Profit/Min. Int.(-)  | 134             | -463            | -150            | -150            | -150            |  |
| Reported Net Profit         | 5,285           | 9,511           | 15,071          | 20,517          | 24,378          |  |
| <b>Adjusted Net Profit</b>  | <b>5,742</b>    | <b>9,635</b>    | <b>16,589</b>   | <b>20,517</b>   | <b>24,378</b>   |  |
| Net Margin                  | 4.4%            | 6.1%            | 9.3%            | 10.3%           | 11.1%           |  |
| Diluted Share Cap. (mn)     | 465.6           | 465.6           | 465.6           | 465.6           | 465.6           |  |
| <b>Diluted EPS (INR)</b>    | <b>12.3</b>     | <b>20.7</b>     | <b>35.6</b>     | <b>44.1</b>     | <b>52.4</b>     |  |
| Diluted EPS Growth          | -42.0%          | 67.8%           | 72.2%           | 23.7%           | 18.8%           |  |
| Total Dividend + Tax        | 3,259           | 4,191           | 3,725           | 3,725           | 3,725           |  |
| Dividend Per Share (INR)    | 7.0             | 9.0             | 8.0             | 8.0             | 8.0             |  |

Source: Company, JM Financial

| Cash Flow Statement          |                | (INR mn)       |                |                |                |  |
|------------------------------|----------------|----------------|----------------|----------------|----------------|--|
| Y/E March                    | FY23A          | FY24A          | FY25E          | FY26E          | FY27E          |  |
| Profit before Tax            | 9,062          | 14,460         | 22,065         | 27,338         | 32,521         |  |
| Depn. & Amort.               | 7,356          | 8,482          | 8,638          | 9,093          | 9,488          |  |
| Net Interest Exp. / Inc. (-) | 2,986          | 4,912          | 4,619          | 3,959          | 3,684          |  |
| Inc (-) / Dec in WCap.       | -815           | -6,270         | -5,898         | -4,604         | -4,745         |  |
| Others                       | -792           | -70            | -1,368         | 150            | 150            |  |
| Taxes Paid                   | -3,186         | -5,288         | -5,627         | -6,971         | -8,293         |  |
| <b>Operating Cash Flow</b>   | <b>14,611</b>  | <b>16,226</b>  | <b>22,430</b>  | <b>28,964</b>  | <b>32,805</b>  |  |
| Capex                        | -16,029        | -12,867        | -10,264        | -10,056        | -10,082        |  |
| Free Cash Flow               | -1,418         | 3,358          | 12,166         | 18,908         | 22,724         |  |
| Inc (-) / Dec in Investments | 349            | 7,198          | -2,500         | -2,500         | -2,500         |  |
| Others                       | -2,986         | -4,912         | -4,619         | -3,959         | -3,684         |  |
| <b>Investing Cash Flow</b>   | <b>-18,666</b> | <b>-10,581</b> | <b>-17,382</b> | <b>-16,515</b> | <b>-16,265</b> |  |
| Inc / Dec (-) in Capital     | 0              | 0              | 0              | 0              | 0              |  |
| Dividend + Tax thereon       | -3,259         | -4,191         | -3,725         | -3,725         | -3,725         |  |
| Inc / Dec (-) in Loans       | 13,416         | 6,343          | -5,000         | -5,000         | -5,000         |  |
| Others                       | -1,737         | -1,293         | 1,401          | -111           | -106           |  |
| <b>Financing Cash Flow</b>   | <b>8,420</b>   | <b>859</b>     | <b>-7,324</b>  | <b>-8,836</b>  | <b>-8,831</b>  |  |
| <b>Inc / Dec (-) in Cash</b> | <b>4,365</b>   | <b>6,504</b>   | <b>-2,276</b>  | <b>3,613</b>   | <b>7,709</b>   |  |
| Opening Cash Balance         | 6,030          | 10,395         | 16,899         | 14,623         | 18,236         |  |
| Closing Cash Balance         | 10,395         | 16,899         | 14,623         | 18,236         | 25,945         |  |

Source: Company, JM Financial

| Balance Sheet                     |                 | (INR mn)        |                 |                 |                 |  |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|
| Y/E March                         | FY23A           | FY24A           | FY25E           | FY26E           | FY27E           |  |
| Shareholders' Fund                | 67,055          | 71,702          | 84,449          | 1,01,129        | 1,21,677        |  |
| Share Capital                     | 931             | 931             | 931             | 931             | 931             |  |
| Reserves & Surplus                | 66,124          | 70,771          | 83,518          | 1,00,198        | 1,20,745        |  |
| Preference Share Capital          | 0               | 0               | 0               | 0               | 0               |  |
| Minority Interest                 | 361             | -49             | -49             | -49             | -49             |  |
| Total Loans                       | 73,132          | 79,475          | 74,475          | 69,475          | 64,475          |  |
| Def. Tax Liab. / Assets (-)       | 658             | 39              | 39              | 39              | 39              |  |
| <b>Total - Equity &amp; Liab.</b> | <b>1,41,206</b> | <b>1,51,167</b> | <b>1,58,914</b> | <b>1,70,595</b> | <b>1,86,142</b> |  |
| Net Fixed Assets                  | 68,621          | 73,006          | 74,631          | 75,595          | 76,188          |  |
| Gross Fixed Assets                | 1,33,409        | 1,43,479        | 1,54,392        | 1,64,655        | 1,74,211        |  |
| Intangible Assets                 | 3,771           | 3,668           | 3,668           | 3,668           | 3,668           |  |
| Less: Depn. & Amort.              | 75,571          | 84,053          | 92,691          | 1,01,784        | 1,11,273        |  |
| Capital WIP                       | 7,012           | 9,912           | 9,264           | 9,056           | 9,582           |  |
| Investments                       | 25,688          | 18,490          | 20,990          | 23,490          | 25,990          |  |
| Current Assets                    | 88,038          | 1,00,344        | 1,10,687        | 1,24,000        | 1,41,667        |  |
| Inventories                       | 31,263          | 32,161          | 39,006          | 43,484          | 48,068          |  |
| Sundry Debtors                    | 30,988          | 31,769          | 36,568          | 40,766          | 45,064          |  |
| Cash & Bank Balances              | 10,395          | 16,899          | 14,623          | 18,236          | 25,945          |  |
| Loans & Advances                  | 3,066           | 2,653           | 2,786           | 2,925           | 3,072           |  |
| Other Current Assets              | 12,327          | 16,861          | 17,704          | 18,589          | 19,518          |  |
| Current Liab. & Prov.             | 41,140          | 40,672          | 47,394          | 52,489          | 57,702          |  |
| Current Liabilities               | 38,827          | 37,365          | 43,757          | 48,488          | 53,301          |  |
| Provisions & Others               | 2,313           | 3,307           | 3,638           | 4,001           | 4,402           |  |
| Net Current Assets                | 46,897          | 59,671          | 63,293          | 71,510          | 83,964          |  |
| <b>Total - Assets</b>             | <b>1,41,206</b> | <b>1,51,167</b> | <b>1,58,914</b> | <b>1,70,595</b> | <b>1,86,142</b> |  |

Source: Company, JM Financial

| Dupont Analysis     |       |       |       |       |       |  |
|---------------------|-------|-------|-------|-------|-------|--|
| Y/E March           | FY23A | FY24A | FY25E | FY26E | FY27E |  |
| Net Margin          | 4.4%  | 6.1%  | 9.3%  | 10.3% | 11.1% |  |
| Asset Turnover (x)  | 1.0   | 1.1   | 1.1   | 1.2   | 1.2   |  |
| Leverage Factor (x) | 2.0   | 2.1   | 2.0   | 1.8   | 1.6   |  |
| RoE                 | 8.7%  | 13.9% | 21.2% | 22.1% | 21.9% |  |

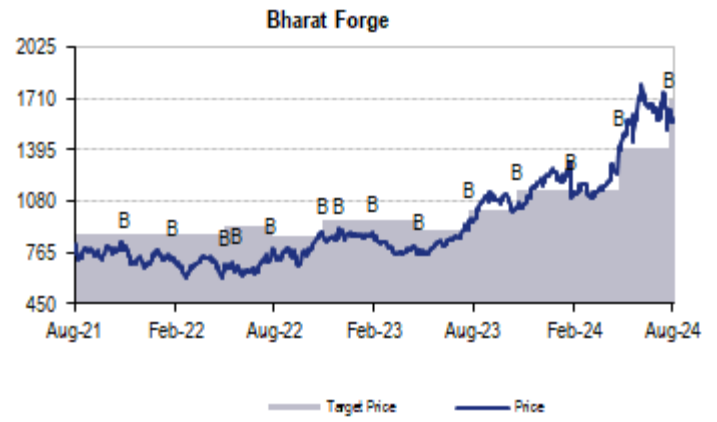
| Key Ratios          |       |       |       |       |       |  |
|---------------------|-------|-------|-------|-------|-------|--|
| Y/E March           | FY23A | FY24A | FY25E | FY26E | FY27E |  |
| BV/Share (INR)      | 144.0 | 154.0 | 181.4 | 217.2 | 261.3 |  |
| ROIC                | 6.7%  | 9.8%  | 15.0% | 16.8% | 18.7% |  |
| ROE                 | 8.7%  | 13.9% | 21.2% | 22.1% | 21.9% |  |
| Net Debt/Equity (x) | 0.6   | 0.6   | 0.5   | 0.3   | 0.1   |  |
| P/E (x)             | 128.5 | 76.6  | 44.5  | 36.0  | 30.3  |  |
| P/B (x)             | 11.0  | 10.3  | 8.7   | 7.3   | 6.1   |  |
| EV/EBITDA (x)       | 43.9  | 30.6  | 23.7  | 20.4  | 17.7  |  |
| EV/Sales (x)        | 6.0   | 5.0   | 4.4   | 3.9   | 3.4   |  |
| Debtor days         | 88    | 74    | 75    | 75    | 75    |  |
| Inventory days      | 88    | 75    | 80    | 80    | 80    |  |
| Creditor days       | 127   | 104   | 110   | 110   | 110   |  |

Source: Company, JM Financial

History of Recommendation and Target Price

| Date      | Recommendation | Target Price | % Chg. |
|-----------|----------------|--------------|--------|
| 12-Aug-20 | Buy            | 475          |        |
| 9-Sep-20  | Buy            | 530          | 11.6   |
| 11-Nov-20 | Buy            | 540          | 1.9    |
| 12-Feb-21 | Buy            | 680          | 25.9   |
| 6-Jun-21  | Buy            | 850          | 25.0   |
| 12-Aug-21 | Buy            | 875          | 2.9    |
| 14-Nov-21 | Buy            | 875          | 0.0    |
| 10-Feb-22 | Buy            | 875          | 0.0    |
| 16-May-22 | Buy            | 925          | 5.7    |
| 9-Jun-22  | Buy            | 925          | 0.0    |
| 11-Aug-22 | Buy            | 870          | -5.9   |
| 14-Nov-22 | Buy            | 960          | 10.3   |
| 11-Dec-22 | Buy            | 960          | 0.0    |
| 14-Feb-23 | Buy            | 960          | 0.0    |
| 7-May-23  | Buy            | 900          | -6.3   |
| 9-Aug-23  | Buy            | 1,025        | 13.9   |
| 6-Nov-23  | Buy            | 1,150        | 12.2   |
| 12-Feb-24 | Buy            | 1,150        | 0.0    |
| 8-May-24  | Buy            | 1,400        | 21.7   |
| 9-Aug-24  | Buy            | 1,700        | 21.4   |

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

| Definition of ratings |   |
|-----------------------|---|
| Rating                | Meaning   |
| Buy                   | Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.  |
| Hold                  | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| Sell                  | Price expected to move downwards by more than 10% from the current market price over the next twelve months.  |

\* REITs refers to Real Estate Investment Trusts.

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