



Bharat Forge

BSE SENSEX 84,929 S&P CNX 25,939

CMP: INR1,582 TP: INR1,470(-7%) Neutral

BHARAT FORGE



Stock Info

| | |
|-----------------------|-------------|
| Bloomberg | BHFC IN |
| Equity Shares (m) | 466 |
| M.Cap.(INRb)/(USDb) | 736.7 / 8.8 |
| 52-Week Range (INR) | 1826 / 1002 |
| 1, 6, 12 Rel. Per (%) | -7/23/13 |
| 12M Avg Val (INR M) | 1810 |
| Free float (%) | 54.8 |

Financials Snapshot (INR b)

| Y/E Mar | 2024 | 2025E | 2026E |
|--------------|-------|-------|-------|
| Sales | 156.8 | 176.9 | 199.3 |
| EBITDA (%) | 16.3 | 18.5 | 20.3 |
| Adj. PAT | 9.2 | 16.2 | 21.8 |
| EPS (INR) | 19.7 | 34.8 | 46.8 |
| EPS Gr. (%) | 61.8 | 76.4 | 34.5 |
| BV/Sh. (INR) | 154 | 175 | 209 |

Ratios

| | | | |
|------------|------|------|------|
| Net D:E | 0.5 | 0.6 | 0.3 |
| RoE (%) | 13.2 | 21.2 | 24.4 |
| RoCE (%) | 8.7 | 12.4 | 15.1 |
| Payout (%) | 46.3 | 35.6 | 27.9 |

Valuations

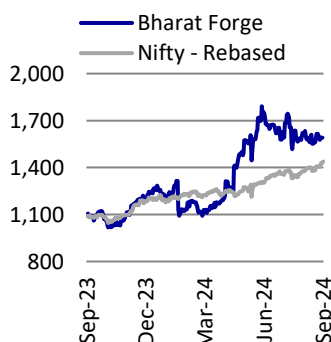
| | | | |
|----------------|------|------|------|
| P/E (x) | 80.2 | 45.5 | 33.8 |
| P/BV (x) | 10.3 | 9.0 | 7.6 |
| EV/EBITDA (x) | 30.4 | 23.9 | 19.1 |
| Div. Yield (%) | 0.6 | 0.7 | 0.8 |
| FCF Yield (%) | 0.3 | 0.6 | 2.6 |

Shareholding Pattern (%)

| As On | Jun-24 | Mar-24 | Jun-23 |
|----------|--------|--------|--------|
| Promoter | 45.3 | 45.3 | 45.3 |
| DII | 28.1 | 28.3 | 28.8 |
| FII | 17.0 | 16.5 | 15.8 |
| Others | 9.6 | 10.0 | 10.2 |

FII includes depository receipts

Stock Performance (1-year)



Defense to remain growth driver

Near-term demand weak for other segments

We met BHFC's management team recently to understand the company's growth outlook in the coming years. Key growth drivers for BHFC would be: 1) the robust order backlog of INR54b in defense exports to be executable over the next three years, along with the prospects of the beginning of domestic defense orders soon; 2) with new order wins and multiple initiatives, JS Autocast (JSA) is likely to emerge as one of the fastest growing businesses of BHFC; 3) the aerospace segment is set to clock strong growth in the coming years; 4) PV exports are likely to moderate in FY25E, but they should pick up from FY26 onward given a healthy order backlog. However, CVs (both domestic and exports) and domestic PVs are likely to see weak growth. Given the weakness in Europe, the turnaround in overseas subsidiaries may happen with a lag of a couple of quarters. We estimate a CAGR of 13%/26%/54% in consolidated revenue/EBITDA/PAT over FY24-26. However, at 45.5x/34x FY25E/FY26E PER, we believe the current valuation fully prices in the positive factors. We remain Neutral with a revised TP of INR1,470 (based on 30x Sep'26E consolidated EPS).

Standalone entity updates

We believe that the defense segment will continue to be the key growth driver for the standalone business in FY25E as other segments are facing relatively weak demand in the near term.

Defense – likely to be the key growth driver for standalone entity

- BHFC has an order backlog of INR54b in defense exports to be executable over the next three years. These orders are spread across artillery guns, vehicles and consumables.
- Globally, there is huge requirement for replacement of guns. Even shells are in short supply, and BHFC is seeing a healthy order intake over the past few quarters.
- As per management, India needs almost 4k guns of various types, including towed, mounted, self-propelled, etc. BHFC can produce these guns as it has developed capability to produce nine different gun platforms over the years. BHFC is now building the capability to manufacture over 250 guns and 1,000 vehicles per annum.
- The domestic guns order of INR45b (divided between BHFC and Tata Advanced Systems) is likely to start anytime soon.
- Given the significant growth opportunities in domestic and exports, its defense business is likely to be the key growth driver for BHFC, at least for the next couple of years, if not more.

CV domestic business update:

- Domestic CV industry continues to see weak demand so far YTD, with the top three CV peers posting a 2% YoY decline for YTD.
- However, the management expects MHCV demand to pick up from 3Q onward and drive an improved 2H for the business.
- Overall, for FY25E, the CV segment is likely to post flat or marginal growth for BHFC.