# Bharat Forge Limited

December 22, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 200.00 | CARE AA+; Stable | Assigned |
| Long-term bank facilities | 2,700.00<br>(Enhanced from 2,100.00) | CARE AA+; Stable | Reaffirmed |
| Short-term bank facilities | 700.00 | CARE A1+ | Reaffirmed |
| Non-convertible debentures | 700.00 | CARE AA+; Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Bharat Forge Limited (BFL) continue to factor its established market position as India's largest manufacturer and exporter of auto components, leading position in industrial components and globally leading position automotive forgings industry in the commercial vehicle (CV) segment. The ratings also factor BFL's long-lasting relationship with global automotive original equipment manufacturers (OEMs) and Tier-I suppliers, and its presence in the industrial segments that include oil and gas, defense, aerospace, rail, construction and mining and general engineering. The ratings take into account its geographical diversification with 59% of the consolidated revenue being derived from outside India and 41% revenue from domestic sale coupled with the strong market presence. BFL has been diversifying its business with increasing presence in the defense and aerospace sectors with a strong order book.

The rating strengths are constrained due to working capital intensive operations leading to sharp increase in the total debt of the company during FY23 and H1FY24. Furthermore, despite an increase in the total operating income (TOI) by 23%, the operating margin fell by 552 bps in FY23, mainly led by a sharp jump in the input costs for their overseas operations. The weakening of performance has resulted in higher dependency on external borrowing leading to moderation of solvency ratios. A large proportion of the revenue is derived from the auto segment, thereby exposing the company to inherent cyclicality of the auto industry, susceptibility of the operating margins to commodity price risk and forex risk, and the working capital-intensive nature of operations. Turnaround in performance of overseas and reduction in the consolidated debt levels leading to improvement in the capital structure and debt coverage metrics would continue to be monitorable.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significant growth in the revenue along with operating margins above 20% on a sustained basis.
- Improvement in the net debt/EBITDA to 0.5x on a sustained basis.

### Negative factors

- Deterioration of net debt/earnings before interest, taxes, depreciation, and amortisation (EBITDA) above 3.5x on a sustained basis.

## Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach in arriving at the ratings of BFL as the subsidiaries are in related businesses. The list of the subsidiaries is shared as Annexures-6.

## Outlook: Stable

CARE Ratings has assigned Stable outlook based on the expected improvement in the revenue and profitability, reduction in debt levels combined with strong cash and liquid investments over medium term. Although consolidated profitability has remained muted in FY23, it is anticipated to gradually recover in the coming quarters mainly led by strong order book position and reduction of headwinds faced by western economies.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

## Key strengths

**Part of the Kalyani Group**

BFL is the flagship entity of the Kalyani Group, with its promoters holding 45.25% stake in the company (as on September 2023). The company is managed by a professional management team, with Mr. B. N. Kalyani as the Chairman and Managing Director. Along with a strong competent management team with a long track record in the industry, the company has ensured maintenance of strong corporate governance practices and a prudent approach to management.

**India's largest auto component exporter with established OEMs clientele**

BFL is India's largest auto component exporter and among the world's leading technology-driven, powertrain and chassis components manufacturers. It has established long-standing relationships with domestic as well as global automotive OEMs and Tier-I suppliers. It has front-line design and engineering, dual shore manufacturing, and full-service supply capabilities which is expected to continue in the future and is expected to have a positive impact on BFL.

**Diversification of revenue streams in industrial segments**

BFL continues to benefit from its diversified product profile and dual shore capabilities developed over the years to de-risk its business model from the cyclicality of the automobile industry. Under the industrial segment, the company caters to power, oil & gas, defence & aerospace, construction & mining, rail & marine and general engineering applications. Regarding the defence segment, in FY23, the company has made significant breakthroughs in its Advanced Towed Artillery Gun System (ATAGS) (155 mm/52 cal category) and completed the final revalidation trial post 5 years of rigorous testing. The Government of India has recently issued an Acceptance of Necessity (AoN) for 307 ATAGS guns. In FY23, Kalyani Strategic System Limited (KSSL) received new defence orders worth ₹2,000 crore across artillery platforms and consumables, execution of these orders is expected to commence from FY24. In the aerospace segment, BFL, with its world-class metallurgical skills, has been successful in building critical super alloys for making engine parts and gears for the aerospace industry.

**Stabilisation in financial performance in FY23 led by macro-economic headwinds**

The TOI improved by 23% in FY23 Y-o-Y mainly led by strong performance of the Indian businesses, with the passenger vehicle (PV) segment reporting a massive growth of 53.4%. Exports grew by 21.4% in FY23 despite the global economic challenges across USA and Europe. The company won new orders worth ₹3,900 crore across automotive and industrial segments. The company manufactured 2.46 lakh tons of output in FY23 which is an increase of 12.4% from the previous year. Despite the growth in scale, the operating profit declined 13.5% in FY23 to ₹1,667.60 crore on a consolidated basis driven by higher raw material, energy costs and changes to product mix coupled with challenges faced in ramp-up of overseas aluminium operations. The operating margins plummeted 552 bps mainly led by RM costs increasing by 451 bps over the last four quarters (ending March 2023) mainly due to inflationary and energy pressures in Europe and US.

In H1FY24, the TOI grew by 29.33% Y-o-Y at ₹7,768 crore as the CV business registered a 12% Y-o-Y growth and the PV segment continues to rise driven by market share gains, increase in value addition and order wins from newer geographies and contributes for almost 25% of exports. The operating margin in H1FY24 was at 17.17%, an increase of 154 bps Y-o-Y driven by improvement in capacity utilisation and improvement in European subsidiaries.

## Key weaknesses

**Exposed to the risk of revenue loss due to shift to electric vehicles; supply of electric powertrains commenced**

The government is pushing very hard for implementation of electric vehicles (EVs) owing to its multiple advantages, such as eco-friendliness, cheaper operational cost, including running and maintenance, both in India as well as globally. This is likely to have a negative impact on auto ancillary as a whole. According to the management, there would impact approximately 10%-12% on its business in the medium- to long-term. The company is cautiously working on its e-mobility strategy. As a part of this, the company acquired strategic stake in Tork Motors, which develops high-performance electric motorcycles. The company is targeting opportunities across 2W, 3W and truck electrification, ranging from providing sub-systems to complete electric powertrains as well as light-weight structural components. The company also has having a wholly-owned subsidiary – Kalyani Powertrain Limited, engaged in the manufacturing of various components for EVs. CARE Ratings continues to monitor the inherent cyclicality risk as well as the transitions to the electric vehicles, which would impact BFL.

**Large share of revenue derived from auto industry, which is cyclical in nature**

The company derives nearly 59% of the revenue from the automotive segment on a standalone basis. As a large proportion of the company's revenue is derived from the auto segment, it exposes the company to the cyclicality of the auto industry in India as well as globally. Events like inflationary pressure across globe, liquidity crisis, transition to BS-VI and onslaught of the COVID-19 pandemic, impacted the auto industry in an adverse way. However, the CV exports demonstrated a stable growth of 11% to ₹1,912.10 crore driven by strong ordering from US Class 8 trucks and European medium and heavy truck market. BFL has emerged as a reliable supplier for chassis and engine components. Domestic CV sales grew by 37% to ₹1,014 crore in FY23 given the strong medium & heavy CV (MHCV) outlook and infrastructure boom.

**Working capital-intensive nature of operations as evinced by high operating cycle**

Owing to its high exports, BFL's receivable cycle is lengthy, resulting in a high working capital intensity. To improve its cash flows, the company discounts invoices of its overseas customers, as the discount rate is substantially lower than the domestic funding rate. Accordingly, most of BFL's debt is low-cost foreign currency debt, which is a self-liquidating liability. This led to increase in the operating cycle in FY23 at 114 days (PY: 105 days). Fund-based utilisation remained moderate at 73% for the 12 months ended August 2023.

**Moderate debt coverage indicators, expected to improve**

The total debt has increased 1.14x of tangible net worth (TNW) as on March 31, 2023, which shows higher reliance on external debt as compared to internal accruals. Net debt/ profit before interest, lease rentals, depreciation and taxation (PBILDT) has weakened to 3.10x mainly due to subdued performance in FY23 led by high input costs and decline in overseas subsidiaries. The company has strong cash and liquid investments of around ₹3000 crore. CARE Ratings expects that with improvement in cashflows with turnaround of weaker subsidiaries, reliance on external debt would reduce leading to improved debt coverage metrics.

## **Liquidity**: Strong

The liquidity position of the company is strong as evinced by cash and liquid investments of more than ₹3000 crore as on September 30, 2023. As against the same, the company has repayments to the tune of ₹2,067 crore (principal) in the next four quarters. The expected cash accruals along with the cash and liquid investments are more than adequate to cover the debt repayments. The company has been maintaining ₹2,000-2,500 crore of liquidity in order to do a strategic expansion/joint ventures (JVs) that will be advantageous to BFL.

## Environment, social, and governance risks

To tackle the environmental risks, BFL has been focusing on improving resource efficiency and reducing emissions. The company has taken steps to make sure that by 80% of the electrical needs are met through renewable sources, reduce energy intensity by 60%, reduce freshwater consumption by 40% and be water positive by 2023. Regarding reducing emissions and waste, the company aims at 50% lesser Scope 1 & 2 emissions (current Scope 1 emission: 79,000 $tCO_2e$; current Scope 2 emission: 202,000 $tCO_2e$), 30% lesser Scope 3 emissions by 2030 and be carbon neutral by 2040. As of FY23, 100% of the waste water has been reused, GHG emissions avoided by renewable energy was upto 83,656 $tCO_2e$, 9% increase in the energy consumed from renewable energy sources and reduction in hazard waste disposal was upto 122.53 MT/year.

To handle the social risks, the company has taken the following steps:

- Implementing best practices for worker health and safety in order to lower workplace accidents.
- Train employees on emerging technologies and enabling them to understand advanced engineering concepts.
- Sustained engagement with customers through digital platforms and team visits to deliver on new products.

BFL has ensured high standards of governance and accountability, initiating the Business Responsibility & Sustainability Reporting (BRSR) along with the sustainability reports. The company has been conforming to ethical practices and regulatory requirements with no instances of non-compliance. The company has a robust cybersecurity in place to ensure protection of customer data.

## Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer discretionary | Automobile and auto components | Auto components | Auto components & equipment |

Incorporated in 1961, BFL is the flagship company of the Kalyani Group providing engineering solutions for diverse automotive and industrial applications. It is India's largest forging company (second to Thyssen Krupp capacity wise and revenue scale) with forging-based engine and chassis components with focus on crankshafts and front-axle beams, largest exporter of auto components and amongst the leading manufacturers of industrial components. It has a diversified global customer base including the top five CV and PV manufacturers in the world. BFL's customer base includes virtually every global automotive OEM and Tier-I supplier. It also manufactures critical components for wind, hydro and nuclear applications; provides critical components for defence and aerospace. It is also engaged in manufacturing critical, high-end construction and mining components and railway engine manufacturing. In FY23, the company derived 59% of the revenue from export markets on a consolidated basis. BFL has 15 manufacturing locations spread across India, Germany, Sweden, France and North America. The company's business broadly comprises two segments – (i) auto components (around 59% of standalone revenue) and (ii) nonautomotive components (around 41% of standalone revenue).

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA) |
|---|---|---|---|
| Total operating income | 10,410.09 | 12,806.28 | 6,006.32 |
| PBILDT | 1,930.02 | 1,667.60 | 938.26 |
| PAT | 1,077.06 | 508.39 | 469.36 |
| Overall gearing (times) | 0.92 | 1.14 | 0.98 |
| Interest coverage (times) | 12.03 | 5.58 | 10.19 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

**Annexure-1: Details of instruments/facilities**

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Debentures-Non-convertible debentures* | INE465A08012 | 11-Aug-2020 | 5.97 | 06-Aug-2025 | 500.00 | CARE AA+; Stable |
| Debentures-Non-convertible debentures | INE465A08020 | 20-Apr-2022 | 5.80 | 18-Apr-2025 | 200.00 | CARE AA+; Stable |
| Fund-based - LT-Working capital limits | | - | - | - | 2700.00 | CARE AA+; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 700.00 | CARE A1+ |
| Term loan-Long term | | - | - | 01-04-2028 | 200.00 | CARE AA+; Stable |

*100 crores from Debentures-NCD (INE465A08012) has been repaid in August'2023

**Annexure-2: Rating history for the last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT-Working capital limits | LT | 2700.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (23-Dec-22) | 1)CARE AA+; Stable (28-Jan-22) | - |
| 2 | Non-fund-based - ST-BG/LC | ST | 700.00 | CARE A1+ | - | 1)CARE A1+ (23-Dec-22) | 1)CARE A1+ (28-Jan-22) | - |
| 3 | Debentures-Non-convertible debentures | LT | 700.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (23-Dec-22) | - | - |
| 4 | Term loan-Long term | LT | 200.00 | CARE AA+; Stable | | | | |

*Long Term/ Short Term

## Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

| Name of the Instrument | Detailed Explanation |
|---|---|
| **Non-financial covenants** | |
| Debentures – Non-convertible debentures | In the event of rating downgrade of the Debenture to A+ or below or suspension/withdrawal of the rating of the Issuer/Debenture by any rating agency, the Debenture Holders would reserve the right to recall the outstanding principal amount on the Debentures along with other monies/accrued interest due in respect thereof. |

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Debentures-Non-convertible debentures | Simple |
| 2 | Fund-based - LT-Working capital limits | Simple |
| 3 | Non-fund-based - ST-BG/LC | Simple |
| 4 | Term loan-Long term | Simple |

## Annexure-5: Lender details

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|---|
| To view the lender wise details of bank facilities please click here |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Annexure-6: List of Subsidiaries as on September 30, 2023

| Sr. No. | Company Name | Country of operation | % equity interest |
|---|---|---|---|
| 1 | Bharat Forge Global Holding GmbH and its wholly owned subsidiaries | Germany | 100% |
| i | Bharat Forge Aluminiumtechnik GmbH | Germany | 100% |
| ii | Bharat Forge Kilsta AB | Sweden | 100% |
| iii | Bharat Forge CDP GmbH and its wholly owned subsidiaries | Germany | 100% |
| a. | Bharat Forge Daun GmbH | Germany | 100% |
| iv | Mecanique Generale Langroise | France | 100% |
| 2 | Bharat Forge America Inc. and its wholly owned subsidiaries | USA | 100% |
| i | Bharat Forge PMT Technologies LLC | USA | 100% |
| ii | Bharat Forge Tennessee Inc | USA | 100% |
| iii | Bharat Forge Aluminium USA, Inc | USA | 100% |
| 3 | Bharat Forge International Limited | UK | 100% |
| 4 | Kalyani Strategic Systems Limited and its wholly owned subsidiaries | India | 100% |
| i | Kalyani Rafael Advanced Systems Pvt Ltd | India | 50% |
| ii | Sagar Manas Technologies Ltd | India | 51% |
| 5 | Kalyani Powertrain Limited and its subsidiaries | India | 100% |
| i | Kalyani Mobility INC | USA | 100% |
| ii | Tork Motors Pvt Ltd | India | 64.29% |
| a. | Lycan Electric Pvit Ltd | India | 64.29% |
| iii | Electroforge Limited | India | 100% |
| 6 | BF Industrial Solutions Ltd | India | 100% |
| i | BF Industrial Technology & Solutions Ltd | India | 100% |
| a. | Sanghvi Europe B.V | Netherlands | 100% |
| ii | JS Auto Cast Foundry India Pvt Ltd | India | 100% |
| 7 | BF Infrastructure Limited and its subsidiaries | India | 100% |
| i | BFIL CEC-JV | India | 74% |

| | | | |
|---|---|---|---|
| 8 | Kalyani Lightweighting Technology Solutions Ltd | India | 100% |
| 9 | Kalyani Centre for Precision Technology Ltd | India | 100% |
| 10 | BF Elbit Advanced Systems Pvt Ltd | India | 51% |
| 11 | Eternus Performance Materials Pvt Ltd | India | 51% |
| **Associate Companies** | | | |
| 1 | Talbahn GmbH | Germany | 35% |
| 2 | Aeron Systemts Pvt Ltd | India | 37.14% |
| 3 | Avaada MHVidarbha Pvt Ltd | India | 26% |
| **Joint Ventures** | | | |
| 1 | BF NTPC Energy Systems Ltd | India | 51% |
| 2 | Refu Drive GmbH | Germany | 50% |
| i | Refu Drive India Pvt Ltd | India | 50% |

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**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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