Bharat Forge Limited

December 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,900.00	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 reaffirmation of the ratings assigned to the bank facilities and instruments of Bharat Forge Limited (BFL) continue to factor its established market position as India's largest manufacturer and exporter of auto components, consistently healthy profitability in the Indian manufacturing operations and long-standing relationship with global automotive original equipment manufacturers (OEMs) and Tier-I suppliers, particularly in the commercial vehicle (CV) segment. The rating has positively factored the robust orderbook position in the defence segment, ramp-up of the greenfield aluminium forging capacity in North America and the funds raised through qualified institutional placement (QIP), which will be largely utilized towards debt repayment/pre-payment.

Though the CV segment has been the leading contributor to the revenues on a consolidated basis, the company has well-diversified itself over the years across passenger vehicles (PV) and Industrial segment (comprising defence, oil & gas, aerospace and rail). During FY24 (FY refers to the period from April 01 to March 31), the company has reported total operating income (TOI) of ₹15,562 crores led by revenue growth across both Indian and Overseas manufacturing operations of 21.3% YoY and 21.9% respectively. Around 55-60% of the revenues in the Indian operations cater to the export market. The revenue growth for CV, PV and Industrial has been 7.6%, 20.1% and 30.8% respectively for FY24. However, CARE takes note of the slowdown in the CV segment, particularly US market for Class 8 trucks where-in BFL has a strong presence. On the other hand, the investments and development costs incurred over past few fiscals in the defence segment have started fructifying, with revenues from the defence segment rising from ₹410 crores in FY23 to ₹1561 crores in FY24 and further to ₹1151 crores just during H1FY25. Executable order book for the defence business was ₹5905.1 crores as on Sep 30, 2024, providing revenue visibility over medium-term.

During the past few fiscals (FY20-24), on a consolidated basis, the company's profit before interest, lease, rentals, depreciation, and taxation (PBILDT) margins has stabilized in the range of around 12-15%, despite significant market headwinds and fluctuations in input commodity prices, over the same period. The Indian manufacturing operations have posted healthy PBILDT margins in the range of 20-25% over the past 2 fiscals (FY23 and FY24). However, the consolidated operating profitability came in at 13.02% in FY23 and 15.69% in FY24 due to the weak performance in the overseas operations which largely includes North America and Europe. The European manufacturing operations though have shown improvement, the PBILDT margins remained inherently low at 3-4% during FY24 and H1FY25. The operating losses in USA have come down from ₹116.9 crores in FY23 to loss of ₹95.30 crores in FY24, despite the revenues surging by 74.27% to ₹856 crores for FY24. The company has completed its greenfield capex in USA for the manufacture of aluminium forgings to address opportunities in lightweighting in 2022, the full commercial benefit of which has been visible since FY24.

The debt protection metrics including overall gearing, Total debt (TD) by PBILDT and interest coverage has been 1.16x, 3.23x and 4.97x as on Mar 31, 2024 (vs 1.14x, 4.35x and 5.58x as on Mar 31, 2023). The total debt primarily has risen over the past two fiscals (FY22-24) due to increase in working capital borrowings, alongside the increase in revenues for the same period. Additionally, the company has raised net proceeds of ₹1619 crores (gross proceeds ₹1650 crores) through the QIP route in December 2024, of which around ₹1030 crores are likely to be utilized towards debt repayments and prepayments for the debt raised by its subsidiaries. The balance amount raised through the QIP route, will be utilized towards the acquisition of American Axles Manufacturing India Corporation Private Limited (AAM India), announced in November 2024 for a consideration of around ₹545 crores. Though BFL already has presence in axles for CV through supply of components, AAM acquisition will add to the customer base, and also augmenting the technological ability in the product segment.

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

The rating strengths are constrained due to working capital intensive operations and volatility in end-user sectors. Despite diversification, even today, a large proportion of its revenue is derived from the automotive segment, thereby exposing the company to inherent cyclicality of the automobiles industry. The ratings are further constrained on account of the susceptibility of the operating margins to commodity price risk and forex risk. Turnaround in the performance of overseas operations and any large-sized unanticipated debt-funded capex or acquisitions leading to deterioration in the capital structure and debt coverage metrics from the existing levels would continue to remain the key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action

- Significant growth in the revenue along with operating margins above 20% on a sustained basis.
- Improvement in net debt/PBILDT to below 0.50x on a sustained basis.

Negative factors- Factors likely to lead to negative rating action

- Worsening of the debt coverage indicators including net debt/PBILDT and/or Total outside liabilities (TOL) by Tangible Networth (TNW) above 2.0x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach to 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

Stable outlook reflects, CARE Ratings expects, that the impact of slowdown in CV market (both domestic and global), is likely to be more than proportionately compensated by the strong growth expectations from the defence and industrial segment. As of September 30, 2024, executable order book was around ₹5905 crores for defence segment providing revenue visibility over the short to medium term period. Additionally, acquisition plans of AAM India is not expected to result in any significant rise in leverage over the medium term, given the support of the QIP proceeds amounting to ₹1650 crores (gross proceeds). Additionally, the recent acquisitions, past investments in defence (product development) and overseas greenfield investments (in USA for aluminium forging) done over past few fiscals are expected to result in higher cash flow generation for the entity and shall support the increase in leverage levels consequent to any further small to medium-sized debt funded capex/acquisitions if any.

Detailed description of 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 30, 2024). 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 forging company, supplying directly to Auto OEM's and Tier I suppliers, with manufacturing capacity of more than 6 Lakh metric tonne for steel forging, 50,000 metric tonnes for aluminium forging and 77,760 metric tonnes for iron casting (on consolidated basis). The company is supplier of choice for critical engine, chassis, and drive-line components for heavy CVs. The company has built strong client relations over the years resulting in healthy market position, particularly for the export market. 58% of the revenues in the Indian operations for FY24 have been towards the export market, particularly to North America and to some extent to Europe. The company has a large, reputed customer base even outside automotive sector and the non-automotive segment revenues has also been almost 45% of the total standalone revenues. Under the industrial segment, the company caters to power, oil & gas, defence & aerospace, construction & mining, rail & marine and general engineering applications.

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. The company has presence in the auto as well as industrial segment, although large proportion of the revenue is derived from the auto segment (PV and CV). For Indian operations including domestic and exports, around 37% of the revenue is derived from the CV segment, 18.5% from PV and 44.5% revenue is derived from industrial segment for FY24. On a consolidated basis, the revenues were well diversified with 24.4% domestically, 35.3% Europe and 25.1% USA. In August 2023, BFL exported its first indigenously designed, developed and manufactured artillery system from India. Revenues in defence has increased from ₹410 crores in FY23 to ₹1561 crores in FY24 and further to ₹1151 crores just during H1FY25. The significant investments and development costs incurred over past few fiscals in the defence segment have started fructifying. As on September 30, 2024, BFL had executable order book of ₹5905.1 crores for the defence business, providing revenue visibility over medium-term.

Stable performance with healthy profitability in Indian operations

Total Operating Income has increased by 21.52% in FY24 mainly led by massive growth in the industrial segment of 31% YoY in FY24 and 17% in H1FY25. On the other hand, the PV segment which has grown 20% in FY24 has declined by 4.3% in H1FY25 due to challenges in the PV export market. Similarly, CV, which is the major revenue driver has improved by 7.6%in FY24, while turning negative 4.7% YoY in H1FY25. Henceforth, in line with the industry scenario, we expect the outlook for CV to be moderate to negative, while defence to more or less offset the degrowth in the other segments. PBILDT improved by 46.4% in FY24 with PBILDT margin of 15.69% on a consolidated basis. The standalone PBILDT margins have been sturdy at 27.63% in FY24 (vs 25.24% in FY23). The ramp-up of the operations in the defence segment has resulted in normal margins for defence in FY24. On the other hand, the overseas manufacturing operations have turned from operating loss to profit in FY24 (PBILDT level). However, the operating profitability continues to remain inherently low with operating margins of 3-4% for European manufacturing in FY24 and H1FY25. The revenues in USA manufacturing operations have risen by 74.27% to ₹856 crores for FY24 and the operating losses have come down from ₹116.9 crores in FY23 to loss of ₹95.30 crores in FY24, despite the revenue surge. The company had completed greenfield capex in USA for the manufacture of aluminium forgings to address opportunities in lightweighting in 2022, the full commercial benefit of which has been visible since FY24.

Key weaknesses

Exposed to the risk of revenue loss due to shift to electric vehicles; challenges in the EV acquisitions

The government has been pushing 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 company management, there would be an impact of approximately 10%-15% on its business in the medium- to long-term. Additionally, the company had ventured into E-mobility in 2018-19 by acquiring stake across EV companies including investments in 2-wheeler -EV (Tork Motors), EV-CV (Tevva Motors) and controllers (Refu Drive). However, most of these investments have not yet turned out well with Tevva Motors having filed application for insolvency in 2024. Additionally, the company has taken impairment of ₹151.77 crores in H1FY25 for the value of investments in Tork Motors. The rating draws comfort from the fact that some of the latest acquisitions including JS Auto and planned acquisition of AAM India (which is one among the leading manufacturer of axles manufacturer) would augur the revenue profile of the company in the domestic business.

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

The company derives nearly 55% 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. Additionally, the company has strong presence in the cyclical CV segment with major presence in US Class 8 truck components and European medium and heavy truck market.

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 FY24 at 103 days (PY: 114 days). Fund-based utilisation remained moderate at 75% for the 12 months ended September 2024.

Moderate debt coverage indicators, expected to improve

Overall gearing, TD/gross cash accruals (GCA) and interest coverage has been 1.16x, 4.97x and 4.56x as on Mar 31, 2024 (vs 1.14x, 5.58x and 6.20x as on Mar 31, 2023). The total debt primarily has risen over the past 2 fiscals primarily due to increase in working capital borrowings (CAGR 22.5% over FY22 to FY24), alongside the increase in revenues (CAGR 23.0%) for the same period. Financial risk profile to improve further with the QIP proceeds of ₹1650 crores of which ₹1030 crores is to be used towards repayment/prepayments of the foreign currency long-term debt and working capital borrowings raised by the subsidiaries.

Liquidity: Strong

The company had cash balance and liquid investments of ₹2719.84 crore as on March 31, 2024 and ₹1990.60 crores as September 30, 2024. While the fund-based working capital utilization remained in comfortable range at an average of 75% for trailing 12 months ended September 2024. The company has more than ₹600 crores of debt repayments in FY25 on consolidated basis. Against this, the company had GCA of ₹1729 crores in FY24 and expected to be maintained in this range in FY25. Additionally, of the total proceeds of qualified institutional placement (QIP), ₹1030 crores is classified towards debt repayments and prepayments, which provides further comfort towards debt repayment obligations over medium-term. The company has additionally planned acquisition of AAM India amounting to ₹549 crores, which will be provided from the QIP proceeds.

Assumptions/Covenants Not applicable

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	**Power consumption: Moderate** 39% of the energy consumed has been from renewable sources, increasing from 29% in FY23. **Environmental emissions: Moderate** GHG emission for scope 1 and scope 2 has been 249 thousand tons Co2e cumulatively, while the emission intensity (tCO2 e/MT production) has been 0.918 for FY24. **Wastage & recycling: Moderate** Of the total water consumption, 33% of the same has been recycled water. Hazardous Waste (kg/MT of production) has increased by 48% in FY24.
Social	**Gender diversity- Low** Given the manufacturing operations, the gender diversity has been quite low. Around 2.6% of employees were female, while 8.33% of key management personnel were female. **Safety standards: Followed** No of fatalities and lost-time injury frequency rate has been nil and 0.45 respectively for the employees during FY24, while same is relatively high at 1.14 and 2 for the workers. Company is certified for ISO 14001 (Environmental Management) and ISO 45001 (Occupational health and safety). **Employee Attrition & Trainings: Adequate.** Attrition rate low at 6% for FY24, reducing from 10.6% in FY23 and 8% in FY22. 25.98 hours of training hours per employee.
Governance	**Board independency- Adequate representation** 44% of the board consists of independent directors (4 out of 9). **Participation of board members: Active** Of the 4 meetings done during the fiscal, attendance rate was strong given that majority of the independent directors had attended all the 4 meetings. **Internal financial controls:** Adequate

Note: Data available on the Standalone entity.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Auto Components & Equipments
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Incorporated in 1961, Bharat Forge Limited (BFL) is the flagship company of the Kalyani Group providing engineering solutions for diverse automotive and industrial applications. It is India's one of the largest forging company 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 all major 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 FY24, the company derived 58% of revenue in the Indian business from export markets. On consolidated basis, the company derived 75.6% of the revenues in FY24 from outside India. BFL has 18 manufacturing plants spread across India, Germany, Sweden, France and North America. The company's business broadly comprises two segments – (i) auto components (~55% of standalone revenue) and (ii) nonautomotive components (~45% of standalone revenue).

Brief Consolidated Financials (₹ crore)	FY2023 (A)	FY2024 (A)	H1FY2025 (UA)
Total operating income	12806.28	15561.75	7794.65
PBILDT	1667.60	2442.04	1388.33
PAT	508.39	910.16	417.87
Overall gearing (times)	1.14	1.16	-
Interest coverage (times)	5.58	4.97	5.95

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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

Note: ₹250 crores from Debentures-NCD (INE465A08012) has been repaid.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	2700.00	CARE AA+; Stable	-	1)CARE AA+; Stable (22-Dec-23)	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+ (22-Dec-23)	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 (22-Dec-23)	1)CARE AA+; Stable (23-Dec-22)	-
4	Term Loan-Long Term	LT	200.00	CARE AA+; Stable	-	1)CARE AA+; Stable (22-Dec-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities Not applicable.

Annexure-4: Complexity level of 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

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

Annexure-6: List of entities consolidated

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation
A	**Direct & indirect Subsidiaries**		
1	Bharat Forge Global Holding GmbH and its wholly owned subsidiaries	Full consolidation	Subsidiary, Operational & management linkages
1.1	Bharat Forge CDP GmbH and its wholly owned subsidiaries		
	Bharat Forge Daun GmbH		
1.2	Bharat Forge Holding GmbH and its wholly owned subsidiaries		
	Bharat Forge Aluminiumtechnik GmbH		
1.3	Mecanique Generale Langroise		
1.4	Bharat Forge Kilsta AB		
2	Bharat Forge International Limited		
3	Bharat Forge America Inc. and its wholly owned subsidiaries		
3.1	Bharat Forge PMT Technologies LLC		
3.2	Bharat Forge Tennessee Inc		
3.3	Bharat Forge Aluminium USA, Inc		
4	Indigenous IL Limited @@		
5	BF Infrastructure Limited and its subsidiaries		
5.1	BFIL CEC-JV		
5.2	Ferrovia Transrail Solutions Private Limited		
6	Kalyani Strategic Systems Limited and its wholly owned subsidiaries		
6.1	Kalyani Rafael Advanced Systems Pvt Ltd		
6.2	Kalyani Strategic Systems Australia Pty Limited#		
6.3	Sagar Manas Technologies Ltd		
6.4	Zorya Mashproekt India Private Limited (w.e.f. January 24, 2024)		
7	Kalyani Powertrain Limited and its subsidiaries		
7.1	Kalyani Mobility INC		
7.2	Tork Motors Private Limited and its wholly owned subsidiary		
	Lycan Electric Pvt Ltd		
7.3	Electroforge Limited		
8	BF Industrial Solutions Limited and its wholly owned subsidiaries		
8.1	BF Industrial Technology & Solutions Ltd		
	Sanghvi Europe B.V		
8.2	JS Auto Cast Foundry India Pvt Ltd		
9	Kalyani Lightweighting Technology Solutions Ltd		
B	**Associates**		
10	Talbahn GmbH (not material for consolidation)	Equity method	Associates
11	Aeron Systems Private Limited		
12	Avaada MHVidarbha Pvt Ltd		
C	**Joint Ventures**		
13	Refu Drive GmbH	Equity method	Joint venture
13.1	Refu Drive India Pvt Ltd		

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

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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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