

## Bharat Forge Limited

December 23, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities	2,300.00 (Enhanced from 2,100.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short term bank facilities	700.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>3,000.00</b> <b>(₹ Three Thousand Crore Only)</b>		
Non-convertible debentures	700.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
<b>Total long-term instruments</b>	<b>700.00</b> <b>(₹ Seven Hundred Crore Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Bharat Forge Limited (BFL) take into account the established market position of the company being India's largest manufacturer and exporter of auto components and among the leading manufacturers of industrial components. The ratings also take into account BFL's long-lasting relationship with global automotive original equipment manufacturers (OEMs) and Tier-I suppliers, its presence in industrial segments that include oil and gas, defence, aerospace, rail, construction and mining and general engineering, and its geographical diversification with 64% of the consolidated revenue being derived from global markets/markets outside India in FY22 (refers to the period April 1 to March 31).

The ratings also positively factor-in BFL's strong market presence and its robust liquidity position. The ratings also consider the improvement in the total operating income (TOI) and operating margin reported by the company in FY22. The company reported a TOI of ₹10,410 crore in FY22 and TOI of ₹6,006.31 crore in H1FY23 on a consolidated basis, growth of 65.5% and 31.3% YoY, respectively, led by revival in the auto as well as industrial segments. The operating margin improved to 18.54% in FY22, however, the margins reduced to 15.62% in H1FY23 (PY: 22.73%).

The rating strengths are constrained by a large proportion of revenue being derived from the auto segment, thereby exposing the company to inherent cyclical nature of the auto industry, susceptibility of the operating margins to commodity price risk and forex risk, and the working capital-intensive nature of operations. The rating strengths are also tempered by moderation in the debt coverage indicators of the company in FY22 and H1FY23 due to higher borrowings and increased interest costs resulting from elevated working capital requirements. The recent/ongoing organic and inorganic growth is expected to provide BFL with higher sectoral diversification, specifically in the electric vehicle (EV) and non-automotive segments. Transition to EVs in the medium-term and its impact on the business and financial profile would continue to be monitorable.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Diversification in the revenue streams such that the dependence on the commercial vehicle (CV) industry is reduced to a substantial extent.
- Improvement in the consolidated net debt/tangible net worth (TNW) to 0.20x on a sustained basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration of consolidated net debt/TNW to 0.60x on a sustained basis.

### Detailed description of the key rating drivers

#### Key rating 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 2022). The company is managed by a professional management team, with Baba 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**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 and 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.

**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 cyclicity 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, the company has made progress in two areas – successful in passing all tests for ATAGS, and production of Kalyani M4 armoured vehicle. In the aerospace segment, the company aims to move from a component supplier to a sub-assembly supplier for global commercial aviation sector.

**Recovery in financial performance in FY22 to pre-COVID-19 levels:** The TOI improved by 65.5% in FY22 YoY and has surpassed the TOI of FY19 by around 4% due to improved demand across domestic as well as international businesses. The domestic industrial segment has grown by 57% to ₹1,166.6 crore in FY22, around 19% for the same coming from the supply of oxygen cylinders. The company's exports were at ₹3,662.06 crore in FY22, a growth of 87.23%. The key growth driver was the industrial segment, which witnessed a revenue growth of 150.3% backed by sharp recovery in shale gas drilling activity in North America. The auto export segment across passenger vehicle (PV) and CV saw a sharp jump in the revenue of 25.6% and 78.8%. The operating margin for FY22 is 18.54% led by economies of scale along with cost reduction initiatives and productivity efficiencies. The EBITDA margin improved by 561 bps driven by improvement in the product mix and increase in utilisation.

In H1FY23, the company reported a TOI of ₹6,006.31 crore led by increased premiumisation and increase in the value of the products. The company reported PBILDT margin of 15.62% in H1FY23 (PY: 22.73%) due to volatility in freight costs and raw material prices. The PBILDT margin for the standalone business was around 27.27%. The PAT for H1FY23 was ₹474.57 crore and gross cash accruals (GCA) was ₹674.88 crore.

#### **Key rating weaknesses**

**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 cyclicity 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 Indian auto industry reported recovery and healthy growth in the sales in FY22 led by festive season sales. CV exports grew by 79% to ₹1,714.9 crore driven by orders from US Class 8 trucks and European medium and heavy truck. However, the cyclical nature of the segment is expected to have adverse effects, especially due to the onset of inflation FY23 onwards.

**Exposed to the risk of revenue loss due to shift to EVs; supply of electric powertrains commenced:** The government is pushing very hard for implementation of 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 be a hit of 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 is also having a wholly-owned subsidiary – Kalyani Powertrain Limited, engaged in the manufacturing of various components for EVs. CARE Ratings continues to monitor the inherent cyclicity risk as well as the transitions to the electric vehicles, which would impact BFL.

**Working capital-intensive nature of operations as evinced by high operating cycle:** The working capital intensity of the company remains high due to higher inventory (due to commodity inflation, the absolute inventory value was higher) and higher credit period for export receivables. This led to increase in the operating cycle in FY22 at 105 days (PY: 132 days), an improvement from previous year, albeit stretched compared with FY19 (pre-COVID-19). The company meets its working capital requirements through sales bill discounting.

#### **Liquidity: Strong**

The liquidity position of the company is adequate as evinced by cash and liquid investments of ₹2,003.96 crore as on September 30, 2022. The expected cash accruals along with the cash and liquid investments are more than adequate to cover the debt repayments.

#### **Analytical approach: Consolidated**

CARE Ratings has adopted consolidated approach in arriving at the ratings of BFL as the subsidiaries are in related businesses. The list of subsidiaries which are consolidated is provided in Annexure-6.

## 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

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 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 the manufacturing of critical, high-end construction and mining components and railway engine manufacturing. In FY22, the company derived 63% 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 55% of standalone revenue) and (ii) nonautomotive components (around 45% of the standalone revenue).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	6,287.22	10,410.09	4,572.29
PBILD	812.95	1,930.02	1,039.15
PAT	(126.97)	1,077.06	423.20
Overall gearing (times)	0.98	0.92	0.97
Interest coverage (times)	7.55	12.03	14.17

A: Audited

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

**Any other information:** Not applicable

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

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

**Complexity level of various instruments rated for this company:** Annexure-4

**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
Fund-based - LT-Working Capital Limits		-	-	-	2300.00	CARE AA+; Stable
Non-Convertible Debentures	INE465A08020	20-Apr-2022	5.80	18-Apr-2025	200.00	CARE AA+; Stable
Non-Convertible Debentures	INE465A08012	11-Aug-2020	5.97	06-Aug-2025	500.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC		-	-	-	700.00	CARE A1+

**Details of non-convertible debentures**

ISIN	Date of Issue	Coupon Rate (%)	Maturity Date	Size of the issue (Rs. Crores)	Rating Assigned along with Rating Outlook
INE465A08020	20-Apr-2022	5.80	18-Apr-2025	200.00	CARE AA+; Stable
INE465A08012	11-Aug-2020	5.97	06-Aug-2025	500.00	CARE AA+; Stable

**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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	2300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (28-Jan-22)	-	-
2	Non-fund-based - ST-BG/LC	ST	700.00	CARE A1+	-	1)CARE A1+ (28-Jan-22)	-	-
3	Debentures-Non Convertible Debentures	LT	700.00	CARE AA+; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable****Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of 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

### Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

### Annexure-6: List of Subsidiaries (consolidated) as on September 30, 2022

Sr. No.	Name of the subsidiary	Country	% shareholding
1	Bharat Forge Global Holding GmbH (BFGH) and its wholly owned subsidiaries	Germany	100%
2	Bharat Forge Holding GmbH and its wholly owned subsidiaries	Germany	100%*
3	Bharat Forge Aluminiumtechnik GmbH (BFAT)	Germany	100%*
4	Bharat Forge Kilsta AB	Sweden	100%*
5	Bharat Forge CDP GmbH and its wholly owned subsidiaries	Germany	100%*
6	Bharat Forge Daun GmbH	Germany	100% *
7	Mecanique Generate Langroise	France	100%*
8	Bharat Forge International Limited	UK	100%
9	Bharat Forge America Inc. and its wholly owned subsidiaries	US	100%
10	Bharat Forge PMT Technologie LLC	US	100%*
11	Bharat Forge Tennessee Inc.	US	100%*
12	Bharat Forge Aluminum USA, Inc.	US	100%*
13	BF Infrastructure Limited and its subsidiary	India	100%
14	BFIL-CEC JV	India	74%*
15	Kalyani Strategic Systems Limited and its subsidiaries	India	100%
16	Kalyani Rafael Advanced Systems Private Limited	India	50%*
17	Sagar Manas Technologies Limited	India	100%*
18	Analogic Controls India Limited	India	100%
19	BF Elbit Advanced Systems Private Limited	India	51%
20	Eternus Performance Materials Private Limited	India	51%
21	Kalyani Centre for Precision Technology Limited	India	100%
22	Kalyani Powertrain Limited and its wholly owned subsidiaries	India	100%
23	Kalyani Mobility Inc (Formerly Kalyani Precision Machining, Inc.) (Subsidiary of Kalyani Powertrain Limited w.e.f. September 14, 2021)	US	100%*
24	Tork Motors Private Limited	India	64.29%*
25	Lycan Electric Private Limited	India	64.29%*
26	BF Industrial Solutions Limited (BFIS) (Formerly Nouveau Power and Infrastructure Private Limited) and its wholly-owned subsidiaries #	India	100%
27	BF Industrial Technology & Solutions Limited	India	100%*
28	Sanghvi Europe B.V. ^	Netherlands	100%*

\* held through subsidiaries

\$ deregistered w.e.f. January 14, 2021

# w.e.f. May 6, 2021

^ w.e.f. June 28, 2021

Sr. No.	Name of the Associate/Joint Venture	Country	% shareholding
1	Talbahn GmbH	Germany	35%*
2	Ferrovial Transrail Solutions Private Limited	India	49%*
3	Aeron Systems Private Limited	India	37.14%
4	BF Premier Energy Systems Private Limited	India	50%*
5	BF NTPC Energy Systems Limited	India	51%
6	Refu Drive GmbH	Germany	50%
7	Refu Drive India Private Limited	India	50%

\* held through subsidiaries

\$ including shares held through subsidiaries

**Note on 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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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#### Disclaimer:

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