

Bharat Forge Limited

January 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2,100.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	700.00	CARE A1+ (A One Plus)	Assigned
Total Bank Facilities	2,800.00 (Rs. Two Thousand Eight Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bharat Forge Limited (BFL) factor-in 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, its long-lasting relationship with global automotive 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 74% of the consolidated revenue being derived from global markets/markets outside India in FY21.

The ratings also positively factor-in the 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 H1FY22. The company reported a TOI of Rs.4,572.29 crore in H1FY22 on a consolidated basis, growth of 75% over the previous period, led by revival in the auto as well as industrial segments. The operating margin improved to 22.73% on a consolidated basis in H1FY22 (Previous period: 8.84%).

The rating strengths are constrained by a large proportion of revenue being 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. The rating strengths are also tempered by moderation in the debt coverage indicators of the company in FY21 and H1FY22 due to higher borrowings resulting from elevated working capital requirements. Transition to Electric Vehicles (EVs) in the medium-term and its impact on the business and financial profile would continue to be a monitorable.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration of consolidated net debt/tangible net worth 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 44.76% stake in the company (as on December 2021). The company is managed by a professional management team, with Mr. 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.

India's largest auto component exporter with established Original Equipment Manufacturers (OEMs) clientele

BFL is India's largest auto component exporter and among the world's leading technology-driven, powertrain and chassis components manufacturer. 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

Over the years, the company has diversified its presence in the industrial segment as well, which constitutes approximately 40% of the standalone revenue. Under the industrial segment, the company has been supplying the components for applications in energy, oil & gas, defence, aerospace, construction and mining, rail and marine, and general engineering applications.

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

Key Rating Weaknesses

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

The company derives nearly 60% of 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 cyclical nature of the auto industry in India as well as globally. The Indian auto industry reported negative growth in FY20 and FY21 due to the economic slowdown, liquidity crisis, transition to BS-VI and onslaught of the COVID-19 pandemic. The global auto industry demand was also muted in the past two years due to the economic slowdown on account of the pandemic. While the company also caters to the industrial segment, the revenues of the company are to a very large extent dependent on the economy.

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 electric vehicles 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 and electric powertrains and Tevva motors which makes e-vehicles. The company has also formed a 50% JV with Germany's Refu Electronik GmbH for the development, manufacturing and selling of onboard controllers and components. The company is also having a wholly owned subsidiary – Kalyani Powertrain Limited engaged in manufacturing of various components for EVs.

Deterioration in financial performance in FY21, albeit improvement witnessed in H1FY22; moderation in debt coverage indicators

The TOI declined by 21% in FY21 on a consolidated basis due to a subdued demand environment in the domestic market as well as international operations. The auto as well as industrial segments were impacted in the domestic as well as international markets largely due to the COVID-19 pandemic as production was halted and supply chains were disrupted due to lockdowns. The subdued demand scenario and low capacity utilisations led to deterioration in the PBILDT margins on a consolidated basis. The PBILDT margin deteriorated from 14.02% in FY20 to 13.73% in FY21.

However, recovery was witnessed from the second half of FY22 with revival in demand for Class-8 trucks in the US, improved demand scenario in India, both in the PV and CV category, and revival in economic activities. In H1FY22, the company reported 75% y-o-y growth in TOI on a consolidated basis. The company reported PBILDT margin of 22.73% in H1FY22 (Previous period: 8.84%). The debt coverage indicators of the company witnessed moderation in FY21 due to subdued operating performance. The overall gearing stood at 0.98x in FY21 (PY: 0.86x) and at 0.97x in H1FY22. The gearing on a net debt basis stood at 0.50x in FY21 (PY: 0.55x) and at 0.58x in H1FY22.

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

The working capital intensity of the company remains high as evinced by operating cycle of 132 days in FY21 (PY: 119 days). Being a net exporter, BFL's receivables cycle is elongated. The company meets its working capital requirements through bill discounting and overdraft facilities. The utilisation remained high at 77% for the 15 months ended November 2021.

Liquidity: Strong

The liquidity position of the company is strong, as evinced by cash and liquid investments of Rs.2,341 crore as on September 30, 2021. The expected cash accruals in FY22 along with the cash and liquid investments are more than adequate to cover the debt repayments.

Analytical approach: Consolidated

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

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology - Auto Ancillary Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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 manufacturer and exporter of auto components and amongst the leading manufacturers of industrial components. It also manufactures critical components for wind, hydro and nuclear applications; provides critical components for defence and aerospace. It is also engaged in manufacturing of critical, high-end construction and mining components and railway engine manufacturing. In FY21, the company derived 74% of revenue from export markets on a consolidated basis. BFL has 12 manufacturing locations spread across India, Germany, Sweden, France and North America.

Brief Financials-Consolidated (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	8,073.14	6,345.73	4,572.29
PBILDT	1,132.00	871.45	1,039.15
PAT	349.25	(126.97)	423.20
Overall gearing (times)	0.86	0.98	0.97
Interest coverage (times)	6.61	8.09	14.18

A: Audited; UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	2100.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	700.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	2100.00	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)	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	Simple
2	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 which are consolidated as on September 30, 2021

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	Bharat Forge CDP Trading \$	Russia	NA \$
8	Mecanique Generate Langroise	France	100%*
9	Bharat Forge International Limited	UK	100%
10	Bharat Forge America Inc. and its wholly owned subsidiaries	US	100%
11	Bharat Forge PMT Technologie LLC	US	100%*
12	Bharat Forge Tennessee Inc.	US	100%*
13	Bharat Forge Aluminum USA, Inc.	US	100%*
14	BF Infrastructure Limited	India	100%
15	BFIL-CEC	India	74%*
16	Kalyani Strategic Systems Limited	India	51%
17	Kalyani Rafael Advanced Systems Private Limited	India	50%*
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	BF Industrial Solutions Limited (BFIS) (Formerly Nouveau Power and Infrastructure Private Limited) and its wholly owned subsidiaries #	India	100%
25	Sanghvi Forging and Engineering Limited (SFEL) and its wholly owned subsidiaries^	India	100%*
26	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	Country	% shareholding
1	Ferrovial Transrail Solutions Private Limited	India	49%*
2	Tork Motors Private Limited (including its wholly owned subsidiaries)	India	48.86%*
3	Lycan Electric Private Limited (subsidiary of an associate)	India	48.86%
4	Tevva Motors (Jersey) Limited \$ (including its equity accounted investee)	UK	36.51%
5	Tevva Motors Limited (equity accounted investee of an associate)	UK	15.11%
6	Aeron Systems Private Limited	India	37.14%

* held through subsidiaries

\$ including shares held through subsidiaries

Sr. No.	Name of the Joint Ventures	Country	% shareholding
1	BF Premier Energy Systems Private Limited	India	50%*
2	Refu Drive GmbH	Germany	50%
3	Refu Drive India (Subsidiary of Joint Venture)	India	50%

* held through subsidiaries

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:

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