"Bharat Forge Limited Q4 FY23 Result Analyst Conference Call"

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MANAGEMENT: MR. AMIT KALYANI – DEPUTY MANAGING DIRECTOR, BHARAT FORGE LIMITED
MR. SUBODH TANDALE – EXECUTIVE DIRECTOR, BHARAT FORGE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Bharat Forge Limited Q4 and FY23 Results Analyst Conference Call. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Kalyani – Deputy Managing Director, Bharat Forge Limited. Thank you and over to you, Mr. Kalyani.

Amit Kalyani: Good afternoon ladies and gentlemen. Michelle thank you very much for the introduction. Good afternoon ladies and gentlemen and thank you very much for attending our Q4 and FY23 Analyst and Investor Call. This is Amit Kalyani and I have with me members of our finance and strategy business and operations teams.

So, I will quickly take you through highlights across the board and then open up for Q&A.

So, if you look at our standalone business we have had record sales of almost 1997 crores in Q4 23 and 7,573 crores for FY23. This has been a growth of roughly about 21% on sales and this includes the pass through of raw material and other price increases that we have received.

In terms of tonnage:

It was about 11% increase. Our exports were at $550 plus million for the year while EBITDA margin was 26.2%, which is 100 basis points sequential improvement due to product mix, PBT is of course impacted by the finance cost and exchange loss. We see a normalized interest outgo of about 60 crores to 65 crores per quarter based on the current interest rates. Passenger vehicle revenues have grown about 53% to 1,307 crores for FY23 on the back of a 71% growth in exports. Aerospace has now accounted for 11% of industrial exports and more than doubled from last year and we expect that this will again grow at a healthy double digit 30%, 40% plus number this year as well possibly even more.

In terms of new order wins in the standalone business:

We have new order wins of about 1,500 crores across the component business and industrial verticals and we have successfully seen certain businesses now transition from incubation to harvest space such as defense which I will talk about much more and aerospace also is now on a significant growth path. We are confident that the goal we had set of getting to 500, 600 crores on an annualized basis for aerospace is now within reach in a few years with very profitable business.

In terms of ESG:

We have made progress across the board on ESG, ESG metrics have substantially improved or ratings have improved. We are now a part of the first movers coalition, the SDG global compact and we have also been recognized by European customers for ESG leadership.

In terms of our overseas subsidiaries:

We had an EBITDA loss of 49 crores in the Q4 versus 63 crores of last quarter, utilization levels are beginning to increase as production stabilizes. Our aluminum forging facilities in fact are booked and overbooked and we can move towards profitability with price increase and with ramp-up of our business. Based on the performance in the last four or five weeks we expect Q1 to be significantly better than Q4. In fact, I would say that the European business should be in the black in Q1 and the US business probably from Q3, but we will see sequential improvement in all the businesses including the aluminum business every quarter.

Coming to JSA:

We achieved a revenue of 438 crores in the first year. We have won orders in excess of 400 crores and we expect this business to ramp up very substantially over the next two years. We have got across the board interest from and orders from our existing customers of Bharat Forge and some new customers also because of our relationship and our backing of this business and our acquisition of the new unit in Coimbatore called ISML will close in the next two weeks. With this plus the CAPEX that we are doing in Coimbatore in JSA and in ISML, we will more than double our capacity from about 40.000 odd tons to more than 120,000 tons in the next two years and our revenues will also more than double from what it was in the first year in the next two years also. This will be a very profitable business for us and a very good acquisition and pave the way for us to create a new solid vertical which will allow us to grow and service our customers both existing and get into new products and segments as well. Also, in this business we are focusing on the green business model. So, we are going to create a green foundry by which we have the least carbon footprint, the least emissions, most recycling and be a supplier of choice to all our customers.

Coming to the Defense Business:

I think this is the biggest inflection point for our company, a business that has been nurtured by our management and developed over the last 12 years. All the IP for this is home grown and developed in-house and has now converted itself from an incubation to a delivery business. We have an order book of export orders of over 2000 crores and we have already received the AoN for 300 guns of the ATAGS so that means that this year the order for the ATAGS will also be placed. Besides this, we have significant orders on protective vehicles, deterrence systems and components and consumables across the board both in India and outside and this business will also now hopefully cross $100 million in this year and move to significantly higher annual numbers going forward with the very solid profitability and return ratios. So, a business that we all were looking forward to I think we have reached the end of the tunnel and there seems to be a lot of light and of opportunity.

In E-mobility highlights are that on the Tork side we have sold over 1000 bikes more than 2 and a half million kilometers and we have zero recall, zero safety incidences and no issues with any of the regulatory side or the incentive side we are receiving incentives because every part of our vehicle is made in India except for the batteries which are imported and meets all the local sourcing norms and requirements as per the Government of India. We continue to look at expanding our business ramp of a new plant was just announced start of production 6 weeks ago and we will steadily ramp our production and get to the capacity utilization of about 1,500 to 1,800 bikes soon and then get to 2000 and then beyond that.

Our focus continues to be to build competency, deploy product in the market, learn from it and build a scalable supply model for components, systems, and aggregates in areas where we are not even present today. So, this is a completely new area the two-wheeler and three wheeler area where you want to supply components, subsystems and power trains and be a solution provider.

In terms of outlook, I think FY24 is going to be a seminal year for the company as we pivot from just components to products or from tonnage to technology. As this transformation and momentum gains over the next two years, three years the positive impact on providing both growth and stability to the top line will be evident. There will be many more legs for our business to stand on and more growth drivers for its overall opportunity and growth. As we look ahead to FY24 we expect strong growth across revenues, profitability and return ratios driven by our forging business both in India and abroad and amply supported by other platform businesses such as defense, industrial and E-mobility. We believe that many of the troubles ailing the overseas aluminum businesses is behind us and we expect them to contribute to improvement in ratios for the consolidated entity.

For the standalone business, FY24 looks to be another good year driven by growth in the end markets globally ramp up of new orders won over the last two years, three years and increase in market share across the board. Thank you very much. I think we can take your Q&A now.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. We have the first question from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: I just had a question on the legacy business especially on the standalone, the domestic truck business quarter-on-quarter growth seems to be a bit behind what we saw in terms of the sales and it looks like there has been a lot of pre buy, so what is the outlook for that in the next few quarters, are we at the end of the cycle or do you think there is more left in this up cycle?

Subodh Tandale: So, you are right we saw some pre buy in the last quarter and we were able to cross the 400,000 as well as the GIV is concerned, but at this point in at least as we seen Q1 and the projections for the next one or two quarters we see a reasonably strong demand continuing and based on what we see and what we hear and what we experience there could be a couple of factors. One is there are no inventories in the system. I think the retail sales have also been strong because of the pre-buy. So, there is an expectation that there will be some rebuild of inventories in the system. The demand seems to be reasonable as well given in all the infra push and all of that for the next three, four months there is a strong projection from everybody. In fact, we are seeing demand higher than Q4 as well at this point of course we are monitoring this carefully, but for now this is what we see. So, we are not seeing any let down from a demand point of view as we speak right now.

Amyn Pirani: And similarly if you can give comment on the trends in the global truck business, so you have hit a 500 crore plus revenue in this quarter, how are the production trends going forward and your business in the next few quarters?

Subodh Tandale: As far as global business is concerned if I look at the US in particular then the demand is still holding on the production levels have not changed. They have been pretty constant over the last 18 to 20 months and that continues right now. I think in previous calls we have also explained that the backlogs are still reasonably healthy and as a result truck builds continue. There are some challenges that the market is facing relative to supply chain. It is not just semiconductors; it is couple of other things as well. So, there is a certain up and down from that point of view, but somehow we are seeing production steady and as a result we are also seeing our demand steady. We are also seeing some growth in fact like in India as well because we are seeing improvement in market share across the board and that is also a factor as far as Bharat Forge is concerned. We see a similar condition in Europe where the demand is holding reasonably strong. Of course, in Europe also there are some supply chain factors that are affecting build, but by and large the OEMs are still managing to build one way or the other. The expectation is the rest of this year also will be reasonably strong like in the US and there is a strong optimism for next year as well to remain at similar level although now we have to monitor this literally month by month. As far as we also play in South America. We are seeing some small declines in South America, but then in our case we are going from a relatively small base to a higher base. So, for us we see this as an increment in our business really. So. overall this is the view that we see of the world. This is as far as the commercial vehicle is concerned.

Amyn Pirani: So, it seems that we are still in a supply tight situation and demand really is not so much of a concern at this moment?

Subodh Tandale: Yes, I would say demand is stable. So, we are catering to a stable demand, but we are also seeing growth because of market share.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: My first question is on this overseas subs losses. Now if I recall last quarter you had laid out that the utilization in the new plants in USA is about 20%, 25%, can you give us a little bit more colour on where we are in terms of utilization rates and what is really ailing the business, is it the operating leverage being low or is it just the cost have elevated so much that it needs renegotiations with the customer base a little bit of color as to how we should see that?

Amit Kalyani: It is very simple. There are two issues. One is we have to ramp up production and we have to increase prices. The prices have on average gone up by anywhere between 25% to 30% in some cases even 40%. So, we need to get that price pass through and the second is we need to grow our top line those are the two issues.

Gunjan Prithyani: And where are we on the utilization versus where we can get?

Amit Kalyani: We are at close to 50% now.

Gunjan Prithyani: So, that is not really a bad level?

Amit Kalyani: No, the issue is the price please understand when your production increases and your cost is not recovered you have a bigger problem, but we are now got cost recovery from several customers, few are pending and that will all get closed out by about another month and a half or so.

Gunjan Prithyani: So, by the second half of this fiscal we should see this business?

Amit Kalyani: Europe, we should see black numbers in this next quarter, US, I am very hopeful the quarter after that.

Gunjan Prithyani: And how about the medium-term target that is the low teen EBITDA margin I mean is there a road map?

Amit Kalyani: That still remains mid teen EBITDA margin still remains.

Gunjan Prithyani: That is something that we should be looking at for next year once we fully ramp up?

Amit Kalyani: Next year yes maybe towards the second half of next year.

Gunjan Prithyani: My second question is on defense clearly this is one business which is surprising positively in terms of the way the order book is building out, now can you just share as to how we think about the revenue scale up where we are right now in F23 and do you see this going to 1,000 crores, 2000 crores some guidance around the revenue?

Amit Kalyani: I think we should be above $100 million this year that is our goal and obviously next year we want to grow that quite substantially because this year till December we will have production happening in our existing facilities and our new mega plant will be ready by January, February of next year, I mean in January, February of 24. So, by March, April '24 that facility will be ready for production and that will be a quantum jump in our capacity. We will have almost three times as much capacity as we have today.

Gunjan Trithyani: And in terms of profitability, it is fair to assume that it would not be dilutive at the console level when the revenue starts scaling up?

Amit Kalyani: I think it will be positively surprising for everyone. See the difference is these are our products. These are not something that we are contract manufacturing or someone else IP that we are doing. So, we control the IP, we control the entire value chain. So, I think we will have a good control over the numbers as well.

Gunjan Prithyani: Just last one from me this whole inorganic and acquisition is something which is totally we have made small acquisitions, but it seems like there is also a talk of making large acquisitions on the defense side, so any thought process around how will we approach in organic opportunities which streams it would be it will help us think through because I mean that is something that clearly came as a surprise to us?

Amit Kalyani: So, I do not know what you are talking about, but we are not looking at any large opportunities. We will only look at opportunities which are platform opportunities like JSA which provided us complementary business area where we could A) enter some new segments and B) also provide products and services to our existing customers. So, one of the things that we will do is look at bolt-ons to JSA like we have with ISML and many others so that we are able to grow our capacities there, leverage the strong management and technology that we have in increasing our revenue and profitability fast. There is no plan at all of buying anything else complicated or anything else for sure. I am definitely not going to buy anything outside of India. I think India is the best place for manufacturing and the whole world is coming to India. So, this is where we will look at acquisitions and growth going forward.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura Group. Please go ahead.

Kapil Singh: Just a follow up on defense this $100 million that we are talking about this include artillery guns as well, right?

Amit Kalyani: So, this is our total revenue will be over $100 million. This will include everything that we do in defense including artillery guns yes for this year.

Kapil Singh: And can you also let us know how the defense orders, the guns orders will roll in going ahead? Is there every year there is AoN issued?

Amit Kalyani: Right now, Kapil there is a AoN for 307 ATAGS guns that is out, the RFQ will come out very soon and then the whole order process will go through, but the guns are approved. They finished all their trials and they are ready for induction based on the process being completed.

Kapil Singh: And sir this 307 guns will be over what period?

Amit Kalyani: That is over a four-year period from the first year of supply.

Kapil Singh: And then rolling basis then every three- or four-years updates would come on this, right?

Amit Kalyani: See the total requirement is huge. This is only an initial order.

Kapil Singh: Second can you share update on the industrial business both in India and overseas also the oil and gas business, what is the outlook there?

Amit Kalyani: Oil and gas business outlook is steady. It is better than last year. Industrial business is growing. Thanks to a lot of boost from the renewable energy sector and the Make in India and China plus one a lot of those companies are moving into India plus the fact that India is the only country where infrastructure development is taking place at such a pace. I think India is the place to be for industrial sector and this is where a lot of growth is going to happen. We expect to continue a double-digit growth in the industrial sector overall including both forging and casting.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandle: Sir, can you just share some outlook for the construction equipment for the overseas market sir?

Amit Kalyani: I do not have the construction equipment outlook. I know that we are a supplier to their sector across various different components and fields and our business is growing quite dramatically. I do not have details of which company is growing in which geography maybe Subodh has that maybe he can add something to that.

Subodh Tandale: You know Amit, you are right. There is no such specific benchmark, but we deal with pretty much everybody in that segment in the construction and mining globally and currently we are seeing very strong demand which again is a factor of the strength of the market to a certain extent and also for us growth in let us say either our market share or acquisition of new business. So, it is a combination factor, but that segment for us is growing quite well.

Amit Kalyani: One more thing that will start happening in the near future is you will start seeing capacities being created in India to service India and to export from India.

Mumuksh Mandle: And sir this quarter PV revenue was lower sequentially in both domestic and exports market, any reason for that sir?

Subodh Tandale: There is no structural issue here. It is as I mentioned earlier that there are some challenges that the OEMs are facing in supply and again it is not just semiconductors, it is a combination of various different things. It is a combination of tyres; it is combination of other parts and so on. So, there are some demand adjustments going on, but there is nothing which is a structural problem right now. They are still expecting, for example, the US to go up a significant level from this year, Europe is going to be steady and we see the growth in India as well, so we should be able to make it up that is not an issue.

Moderator: Thank you. The next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: Amit, this is with regard to the EV component any update on two of the plants you are supposed to start and also incremental customer orders in the similar space?

Amit Kalyani: So, one plant has started which is the two-wheeler contract manufacturing plant. The first month was the month of April. The other plant will start in the middle of June and in terms of our power and control electronics we have supplied samples for testing to four OEMs in the country and we should see feedback probably by June once the testing is complete. So, we have delivered. These are not prototypes, these are beta samples. So, they are 20 to 50 number these are significant volume for fleet testing.

Pramod Amthe: Is it relatively behind schedule and any reason for the same from customers or from your side?

Amit Kalyani: You know customers are also developing products. So, it is going through its own product development and debugging cycle. When you are developing EVs as related to IC components the challenges are very different and all OEMs when they have gotten into this sector have faced these challenges.

Pramod Amthe: And the second one is with related to some of the tie ups or the investments which you have made in the EV space, do you see a risk of mark-to-market downwards in case the funding scenario tightens for your international entities and how do you see through in the last three, four years of your investment experience in this business, is it more like a one off which comes back or how do you looking to or the technology absorption from the same is much bigger than the investments made?

Amit Kalyani: That is exactly the point we are not investing as a financial investor. In every case we have got let us say the rights to access the technology and manufacture component subsystem, system subject to obviously paying them some royalty where needed, but we are using this whole process to assimilate the technology and knowledge and develop a larger product profile or product network for our sales for this sector because I believe that the EV sector is not a sprint neither is it a marathon. I think it is a series of sprints because there is a reset taking place every 12 to 18 months in terms of technology, in terms of new technology regulations, new developments in battery technology, in sensor technology, in motor technology. So, one has to remain agile, invest in some base foundation technology and then adapt to what is happening.

Pramod Amthe: And the last one is as you talked about these new business initiatives?

Amit Kalyani: Even if you read what the CEO of the largest Japanese company said after he took over. I think it was very profound to learn the admission made by someone that strong and that powerful that making electric vehicles is not like making cars. In fact, it is anything unlike making cars that is like making a computer or making a cell phone or something like that because it is more about the electronics, the control systems, the software, the embedded systems. The vehicle is the box which all that goes in. So, it is that which is the unlearning that needs to be done in order to go forward and the challenges in this sector and the opportunities in this sector are two sides of the same coin. So, we are going to have to be agile, be nimble, but at the end of the day EVs are going to be the future. I do not think 25 years from now there is going to be more than 20-25% of combustion engines.

Pramod Amthe: One more question is considering that some of the verticals took some time to fructify like aerospace or even defense if you have to look at 3 years or 5 years down the line as we continue to get fearsome from your exposure to CV, where do you see CV as a proportion will be for you might be three or five years down the line?

Amit Kalyani: See Pramod that is a very difficult question to answer because in CV if electrification of CV takes place and we get the kind of market share that we want and we believe that we have the potential to get we may have a very strong growth in that. So, if you remove EV then it may be different although if you include EV I think that we have a significant growth opportunity.

Moderator: Thank you. The next question is from the line of Mahesh from LIC Mutual Fund. Please go ahead.

Mahesh: My most of questions have been answered just one query sir what kind of growth you expect in Indian truck market for this financial year?

Subodh Tandale: I will just give you a longer answer for this. Till Q3 last year the market was supposed to operate somewhere in the region of about 375,000 TIV and suddenly Q4 was pretty good over the last 4 months were pretty good and then we ended up with 405 which was originally the projection supposed to be for this year. So, our expectation right now is it will be within single digit growth is what we expect from this level, but this is also considering the significant growth chain in the last I would say three, four months, but overall, the demand for the next two years or three years generally we expect it on a positive side this is our view for now.

Moderator: Thank you. The next question is from the line of Aman Agrawal from Carnelian Capital. Please go ahead.

Aman Agrawal: Just one question from my side so like if we see a slowdown in CV segment in the US in 2024 calendar year, how do you see your aluminum forging operations getting affected due to this?

Amit Kalyani: Is that a US PV?

Aman Agrawal: US CV commercial vehicles?

Amit Kalyani: We do not have any aluminum exposure to commercial vehicles it is only to passenger cars.

Aman Agrawal: And they are like to our US CV export like if you see a slowdown in 2024 calendar year like any indication we are having with the OEMs about order for 2024 sir?

Subodh Tandale: See 2024 at this point it is not supposed to decline. We are actually seeing projections of a small growth if not it will remain steady so that is the forecast, but again nowadays with the volatility you have to monitor this every month or every quarter. So, we will see how it goes, but at this point they are not predicting any significant decline at all.

Moderator: Thank you. The next question is on the line of Rakesh Roy from Omkara Capital. Please go ahead.

Rakesh Roy: My question is can you highlight the domestic business for FY23 especially domestic industrial business like how is your mining doing for FY23 like a tractor or aerospace?

Amit Kalyani: See tractor industry was at all-time high in 23. 24 I think the projections are yet to be out, but obviously it was the highest ever production of tractors in India so everything is relative, even if the production is down 5% to 10% or 15% it is still a very high number. I am not saying that is what they are projecting, but on the other side on the construction and mining sector those sectors are booming in India, everybody is increasing capacity plus a lot of companies are moving production to India. So, I think India will become a major export hub for that equipment at least for countries like Africa and for Australia and Southeast Asia etc.

Rakesh Roy: Sir just one last question is a domestic mining revenue contribution for in total industries is how much, Sir?

Amit Kalyani: I do not have that number, but probably about 10%.

Rakesh Roy: If I am right sir for FY22 is near 400 crore for domestic business for construction or mining?

Amit Kalyani: I do not have the numbers with me I am sorry.

Rakesh Roy: Sir in export side same in industrial side sir you said oil and gas business is stable, so this year number is on a yearly basis is a flat?

Subodh Tandale: It is the same as last year.

Amit Kalyani: It is going to be steady.

Rakesh Roy: And can you highlight also especially for export market industrial side for aerospace business how is doing and what is your for FY23?

Amit Kalyani: Aerospace has done very well, aerospace has grown more than 100% and we expect that aerospace will continue to grow and it will grow at more than maybe 30%, 40%, 50% this year also.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today which is from the line of Godwin S Fernandez an individual investor. Please go ahead.

Godwin S Fernandez: So, there was a joint venture that we announced with Talgo for manufacturing of speed trains in India, can you kindly put some colour on that and the future prospect to the same?

Amit Kalyani: So, we did not announce joint venture Mr. Fernandez. We have signed a MOU with them to explore the opportunity of setting up a joint venture, to supply to the high-speed rail system in India. So, we are working through the necessary technicalities to understand the competitiveness, the production capability, transfer of technology etcetera and we should shortly have a conclusion on this.

Moderator: Thank you. As that was the last question for today. I would now like to hand the conference over to Mr. Kalyani for closing comments. Over to you, Sir.

Amit Kalyani: Thank you ladies and gentlemen, for your interest and your questions in our company. I look forward to your continued support and engagement with us and if anybody has to ask some other questions, please get in touch with our Investor Relations team and they will direct your questions to the right people and get you the required answers. Thank you very much and have a nice weekend. Bye-bye.

Moderator: Thank you sir. On behalf of Bharat Forge Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.