BHARAT FORGE

November 22, 2024

To

BSE Limited
Corporate Relations Department
Phiroze Jeejeebhoy Towers
Dalal Street, Fort, Mumbai 400 001
Maharashtra, India

Scrip Code: 500493

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, Plot No. C/1, G Block
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051, Maharashtra, India

Symbol: BHARATFORG

Sub. : Transcript of the Analyst / Investor Conference Call on Unaudited Financial Results (Standalone and Consolidated) for the quarter and half year ended September 30, 2024

Ref. : Regulations 30 and 46(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations.')

Dear Sir / Madam,

Please find enclosed herewith the transcript of the Analyst / Investor Conference call, which took place on Thursday, November 14, 2024, after announcement of the Unaudited Financial Results (Standalone and Consolidated) for the quarter and half year ended on September 30, 2024.

The same is also available on the website of the Company at: https://www.bharatforge.com/investors/reports/analyst-conference-calls

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Bharat Forge Limited,

TEJASWINI RAMKRISHNA CHAUDHARI
Digitally signed by TEJASWINI RAMKRISHNA CHAUDHARI
Date: 2024.11.22 18:14:35 +05'30'

Tejaswini Chaudhari
Company Secretary & Compliance Officer

Encl. : As above

"Bharat Forge Limited Q2 FY25 Earnings Conference Call"

November 14, 2024

MANAGEMENT: **MR. AMIT KALYANI – VICE CHAIRMAN & JOINT MANAGING DIRECTOR, BHARAT FORGE LIMITED**
MR. KEDAR DIXIT – CFO, BHARAT FORGE LIMITED
MR. SUBODH TANDALE – EXECUTIVE DIRECTOR, BHARAT FORGE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Bharat Forge Limited Q2 FY '25 Earnings 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 - Vice Chairman and Joint Managing Director, Bharat Forge Limited. Thank you, and over to you, sir.

Amit Kalyani: Good afternoon, ladies and gentlemen, and thank you for your time and attending our call. I will now hand over the explanation part of the call to my colleagues Kedar and Raj Gopal. And then I will be happy to take your Q&A.

Kedar Dixit: Good afternoon, ladies and gentlemen, and welcome to the conference call.

Talking about standalone business:

Q2 standalone performance was resilient given the underlying demand conditions. While the top line was flat at 2,247 crores, the margin expanded by 140 basis points to 28.8% reflective of a favorable product mix. Europe was the weak link in otherwise strong quarter across commercial vehicle and passenger vehicle export business.

The return ratios continue to inch higher with ROCE net of cash at 20.5% from last year of 20%. Our leverage continues to go down while we repay our debt with our gross debt-to-equity ratio now at 0.46x and 0.24x on a net basis. A stronger balance sheet and cash on books of almost Rs. 2,000 crore put us in an enviable position to tap newer opportunities as they arise, both at organic and inorganic front.

The traditional business won new orders of about Rs. 646 crores in H1. And during the same period, across the segments, we won orders of Rs. 2,200 crores, largely dominated by defense of almost Rs. 1,400 crores, followed by JSA, aerospace and the traditional business.

Talking about Overseas Business:

The performance should be viewed in the background of seasonally weak quarter because of holiday season, weak demand environment in Europe and specific customer-related issues impacting European and North American utilization.

In H1, European operations posted EBITDA of Rs. 75 crores, while U.S. operations reduced their EBITDA loss to 45 crores.

Talking about Indian operations:

JSA continues to register a strong operating performance in Q2, with revenue and margins both showing improvement, coupled with robust order wins of Rs. 173 crores in the first half. The most heartening aspect of the business is the diversification on the customer and product front, which has happened over past years with our automobile traditional business.

Talking about Defense:

The group posted revenue of Rs. 509 crores in Q2, that is a jump of an impressive 67% year-over-year. And with order wins of almost Rs. 1,400 crores in H1, the executable order book as on 30th September now stands at about Rs. 5,900 crores. This order book does not include any potential orders from the domestic or export market. The sequential drop in revenue is due to the completion of order on export front.

It is important to understand that new orders will take time to convert into revenues and may create lumpiness in quarterly performance while the business remains on the strong fundamental when dealing with the 3-to-5-year horizon.

Talking about the Consolidated business:

For H1, on the Y-o-Y basis, the revenue grew by about 2% to 7,795 crores, while EBITDA grew by 16.8% to 1,449 crores and PBT increased by 24.5% to 872 crores. EBITDA margins have also improved by 240 basis points to 18.6% in first half, with bulk of the improvement driven by Indian entity.

The consolidated balance sheet continues to remain robust with ROCE of about 18% as of September 2024, and the balance sheet continues to remain strong with ROCE and RONW improving amidst the strong liquidity position.

Now I will hand over to Mr. Amit Kalyani.

Amit Kalyani: So, I just want to give you a little high level thoughts about what I think about the current environment and going forward. I think the demand environment is challenging in Europe.

In India I am hoping that with the stability in the government and the elections all beyond us now that the spending is starting. This is what we are hearing from people, and that should have a, let's say, follow on effect on the CV market and hopefully on the agro market as well and also on the passenger car industry.

America is strong and we expect it to remain strong next year as well.

Also, our diversified revenue streams across geographies and sectors such as defense, industrial, aerospace and casting, both aluminum and iron, should insulate us to a great extent. Because in many of these areas, we are growing our market share and increasing our total business levels. And most of this we are doing with a capacity that is already in place. This is what we believe is going to drive our business for the remaining part of the year.

In terms of order books and order wins, we have a strong order book across sectors, and we continue to win business. Just as Kedar mentioned, we have won 2,200 crores of business in the first half. 1,400 crores of that was defense. Almost 300 crores of that is aerospace. Put that into context, last year our aerospace business was 240 crores. So, it's more than the entire business we did last year. And this is an annualized kind of business that we will do going forward once it fully ramps up. So, we expect to see the aerospace business grow quite substantially and become multiple times the size of its business that it is now.

We see multiple new customers and we also see tremendous momentum of China Plus One and movement from other parts of the world into India, and increased interest, substantially increased interest of U.S. customers, especially after the elections.

We are feeling some pain in our European and Swedish operations. We are downsizing these operations. And we have committed that we will fix these businesses in a short period of time, and that is what we are working on.

In terms of defense, I just want to mention one. Please don't look at quarterly revenues because these are not quarterly kind of businesses. Please look at it on a Y-o-Y basis. And as we have mentioned, we are guided for a strong Y-o-Y growth, and we maintain that.

In terms of M&A opportunities there are plenty of opportunities, but we are looking at opportunities which are synergistic, which are complementary and where we can significantly add value and go from components to systems, get into new products, new sectors, new geographies and also where we can expand the Make in India strategy that we have. So, we will pursue this opportunity, but please remember this is only in India.

In terms of business verticals, I will expect the EV vertical to be EBITDA break-even in the next two to three quarters. Because of the current slowdown and downturn in Europe, it is taking a little longer, but we are still working hard at it, and we are confident that we will get this under control as soon as possible.

That's really all I wanted to say except that business is strong. We keep winning a lot more business. We are increasing our market share with our strategic customers, and we continue to get into new sectors and geographies. And, sorry, I forgot to mention that we have added three new customers in the first half of this year in the component business.

So, that's really all I wanted to say and now we are happy to take your questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Hi, Amit. A couple of questions from my side. One is with respect to the defense business. The revenues which we have seen so far or the order books which we have today, is it now without any gun orders, the export gun orders being largely delivered or there is any pending order?

My question was on our defense business. So, is the export gun order which we had got now being totally serviced or there is anything pending on that side?

Amit Kalyani: No, it is not fully serviced. It is still being delivered. We still have a large order pipeline. Our total order pipeline right now is about close to 6,000 crores.

Jinesh Gandhi: Sorry, I am referring to the gun export order which we had got, I believe that was supposed to be serviced by end of FY '25, if I am not mistaken.

Amit Kalyani: It is still being delivered and we have also got, as I mentioned, we have a total order book which is already signed of 6,000 crores.

Jinesh Gandhi: And secondly, there has been news article about Bharat Forge being selected as the L1 for ATAGS guns. So, how should we think about ordering now? Are there any further steps left before ordering is done? And in that context, how do you see orders to come and by when you see orders to come?

Amit Kalyani: Yes, so there is a process that goes on which is currently going on and this potential order book that will come from this is not included in our existing order book.

Jinesh Gandhi: So, do you expect it to come in this financial year or?

Amit Kalyani: Yes, definitely.

Jinesh Gandhi: Secondly, with respect to the aerospace business, so how should we think about, you are talking of exponential growth from where we are, and there are clearly tailwinds there. But any sense on what was the revenue of aerospace in the first half?

Amit Kalyani: It's in the region of about 100 crores.

Jinesh Gandhi: 100 crores, okay. And last question is on CAPEX. So, if I look at our CAPEX for...

Amit Kalyani: You have a question on CAPEX. Please go ahead.

Jinesh Gandhi: So, CAPEX in the first half at consol level was close to about 820 crores. How should we think from the full-year CAPEX and where all we are investing, because at subsidiaries it seems we are invested close to 500 crores in the first half. So, can you talk about...

Amit Kalyani: There is not much CAPEX left in the subsidiaries. This was for our second phase in the U.S. There is hardly anything left there. Maybe about $8-10 million. The rest of it was all in India. And I think in the second half, in India, we have about significantly lower CAPEX. So, we will just have the maintenance CAPEX.

Jinesh Gandhi: The second phase of U.S. aluminum has already been invested and we will see doubling of capacity or how much?

Amit Kalyani: It will double the capacity. It will come out live only next year.

Jinesh Gandhi: Next year. Got it.

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

Kapil Singh: My question was on defense orders. Can you throw some light on the product and maybe if the geography is from where we have won these orders? And also, how do we calculate the order book? Because last quarter it was about 5,400 crores, and we have executed 500 crores, and we have won 640 crores more order. So, just trying to understand the math around the order book.

Amit Kalyani: Now see, we have, last quarter it was 5,000 crores, 5,400 crores. In the first half, we have executed about 900 crores, and we have added 1,400 crores in the first half. Okay?

Kapil Singh: Understood. So, because in the first quarter, we had mentioned that the order book was already 5,400 crores.

Amit Kalyani: Yes, today the order book is at about 6,000 crores.

Kapil Singh: So, from 5400 crores, if I add 640 crores for the new order wins and I subtract 509 crores for the execution this quarter, the math is not adding up to 5,900 crores.

Amit Kalyani: You can take that on offline because when you are talking about a difference of 10%, I am sure our guys will explain it to you.

Kapil Singh: And on the areas from which we have won the orders…

Amit Kalyani: The areas, I can talk about the products, it's a combination of vehicles, guns and components.

Kapil Singh: The second question was on overseas. You talked about some weakness in Europe, and also if you could give some perspective on Europe in particular, is there a concern that Europe can drop further or already there are what are the customers saying there, whether there is a further...

Amit Kalyani: We are not hearing anything from customers on a long-term basis. The projections come on a monthly basis, and that's really all. Everybody is saying that things are going to get better next month, next year. So, I think next year, realistically I think next year things will probably improve.

Kapil Singh: What about the progress on margin improvement trajectory? How things are shaping up there?

Amit Kalyani: Yes, I think if our business was at the level which we had projected, our margins would have been significantly better. But obviously, we have to adjust our cost to make sure that even at this level, we achieve fairly decent margins. So, I think we are about a quarter or two away from getting to that level in Europe.

On the aluminum side, we have made a lot of good progress, and I think from next year, we will have a much better situation. On the steel side, we have issues on demand and therefore we are doing a lot of work on the cost side.

Kapil Singh: Like earlier, we were talking about reaching double-digit margins. So, any visibility you have? Is there any compensation pending from the customers on cost?

Amit Kalyani: I think whatever actions we have to take on the aluminum side are done, and that will all result in we will see in the results for the next year. On the steel side, we have only a demand issue.

Kapil Singh: And sir, you were also there is this discussion about tariffs coming up in the U.S. market. So, how is the company and the customers thinking about it in terms of contingency planning?

Amit Kalyani: You know, first, everybody, there is a lot of speculation about it. So, first, let the guy come into the White House. Let him make in concrete what is it that is going to happen. Then we will have to react. But the point is, I think that India is going to be in a good position. I think that we have enough capacity and capability to deliver. And we should be well poised to take advantage of the opportunities it throws up.

Kapil Singh: Just lastly, Asia revenues also saw Y-o-Y decline. Any color there? What happened?

Amit Kalyani: No, we had a few countries where we were supplying where they have a slowdown right now. Those numbers are not very large. And there were some inventory correction happening there.

Kapil Singh: I will come back in the queue.

Moderator: Thank you. The next question is from the line of Amyn Pirani from J.P. Morgan. Please go ahead.

Amyn Pirani: You mentioned something on the India business, especially on the commercial vehicle side also hopefully improving as government CAPEX starts. So, probably the first half has been quite tough on a weak base of last year as far as trucks are concerned. Right now, are the customers giving any sign of any production improvement in the monthly or quarterly order book? Or is it more of an expectation for next year that you are hopeful?

Kedar Dixit: See, the first half you have to also consider that it's back or it's been on the back of an election, and there is a cycle associated with it. There are some inventory factors associated with it and so on. So, that has obviously seen a muted demand.

The general belief is that the India growth story is still intact, and we should start seeing a better traction in terms of orders including MHCV. But it might take maybe one or two quarters for it to start being more visible as inventory and all of that disappears from the system. But overall, the outlook of most OEMs is reasonably positive. Not excessively positive, but positive.

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

Pramod Amthe: So, the first question is with regard to the subsidiary investments. I think you have indicated some investments in three of the subsidiaries. Can you elaborate the reason for the same?

Amit Kalyani: So, one subsidiary is we have invested in the second phase of our CAPEX in the US. Second is to invest in our EV business to set up some assets which will start generating revenue from next year.

Pramod Amthe: And there is one for power trading, if I am not wrong.

Amit Kalyani: What? Power trading is for solar. Power Train, sorry. That is the EV.

Pramod Amthe: And that is for capacity enhancement for the product lines or?

Amit Kalyani: No, what are you talking about? Are you talking about enabling a resolution or you are talking about what we have already invested?

Pramod Amthe: No, along with some key management personal change, you have given a table.

Kedar Dixit: So, Pramod, these are the enabling resolutions, and the investment will happen over a period of time, but this is not a new investment, or we are not going to do any new projects outside India. This is largely India based and some of the loan repayments which we are planning to do.

Pramod Amthe: No, this is the enabling resolution for a future period and what period for this is involved?

Kedar Dixit: This is maybe up to the next 12 to 18 months.

Pramod Amthe: And second one is with regard to defense. It is good to see the bulging order book on the defense side. Can you give some qualitative information in terms of what type of client feedback or engagements you are having which can result into better order inflow visibility or pipeline?

Amit Kalyani: Sorry, in the defense business we cannot talk about that level of detail. But we have significant engagement, and we are very confident that we will continue to grow our order book very substantially, and we expect our defense business to be one of the main drivers of our growth of the company going forward.

Pramod Amthe: And excluding the domestic, which is taking the time, any targets you are internally looking at in the order book build up by end of '25 or '26?

Amit Kalyani: Pramod, the whole order book that we have right now is largely exports. We are the largest exporter of defense equipment from India.

Pramod Amthe: But Amit, the challenge is for us to get some visibility because these are like a one-on-one interaction.

Amit Kalyani: So, like I said, if you look at the defense business, please look at it as an annual business. Not on a quarter-to-quarter basis.

Pramod Amthe: Hence, I was asking a medium term, any thoughts how will you build an order book? What is the scale you will be able to do?

Amit Kalyani: Last year, we did about 1,300 crores. So, we have said that we will have close to 40% to 50% growth this year. We are hoping that we are able to keep a substantial level of growth even going forward next year.

Moderator: Thank you. The next question is from the line of Nitin Jain from Fairview Investments. Please go ahead.

Nitin Jain: I have just one question. It's on the ATAGS order. So, you indicated to an earlier caller that we expect to receive the order by the end of this financial year. So, would you be able to quantify the size of the order that Bharat Forge will receive? Because there were some media reports that the current order size is about 7,000 crore, and we would be eligible for about 60% of the order. And follow up to that is that would it be reasonable to assume that it will contribute to revenue from Q1 of FY '26?

Amit Kalyani: So, everything you said before Q1 '26 is directionally correct. There is a process. First, the order has to get, there is a negotiation process, then you get the order, contracting is done, then you have to do FOPM supplies and then you have to start bulk supplies once the FOPM is approved. So, this whole process of approval past the, after getting the full order takes about 6 to 7 months and then you can start supplies. So, let's say about 12 months at the most.

Moderator: Thank you. The next question is from the line of Chirag Shah from White Pine Investment Management Private Limited. Please go ahead.

Chirag Shah: Amit, on the defense side again, so the question is, while our export order book is building up very well, do you have any comment on the domestic side because the entire effort when we started originally was for Make in India and the effort that government was putting at that point of time? So, if you can just give an update on how are you looking at it today and from a next 12 to 24 month perspective, at least on the order flow side, not necessarily revenue?

Amit Kalyani: Let me answer it this way. I would expect our revenues in India from next year to grow at a faster rate than the revenues from export simply because we are starting from a smaller base, and eventually I think domestic will become 30% to 40% over our overall business.

Chirag Shah: And in domestic from next 12 to 24 months, what part of products is where you are seeing this revenue visibility? Because you have a number of products, right? You have approvals for 2-3 product or products, let me put it like that.

Amit Kalyani: Sorry?

Chirag Shah: So, which part of the product portfolio from India you are seeing the visibility of revenue?

Amit Kalyani: Our products are basically land systems which is artillery, vehicles. Then we have on the naval side, we have naval guns. We have other systems that go into naval, and we have our entire unmanned systems. These are the three areas that we operate in, and this is where we expect the mature business is the artillery and the vehicle business. Then the other business which will grow, but even now our marine business is now at about 10% to 15 % of our overall revenue. And it will continue to be at this percentage of the overall revenue. And what is not there is now the unmanned systems, which will also be coming.

Chirag Shah: So, from domestic perspective, from Indian Government...

Amit Kalyani: So, the naval system right now is all domestic. And what I am saying is that is the business that will grow, first domestically and then globally.

Chirag Shah: So, naval business is the area where you are seeing opportunity for next 12-24 months.

Amit Kalyani: Yes.

Chirag Shah: That is how I should look at it from India perspective.

Amit Kalyani: Exactly, exactly.

Chirag Shah: Thanks for this clarification.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Amit Kalyani for closing comments.

Amit Kalyani: So, ladies and gentlemen, thank you for attending our investor call. As I mentioned earlier, we are looking forward to the rest of the year and the coming year with optimism driven by our diversified business portfolio. And we see significant opportunities in our traditional businesses and some of our newer businesses, especially in industrial and in defense and supporting business because we see a lot of migration of demand from other geographies into India. So, I think this will drive our medium-to-long-term growth and continue to deliver strong returns and improve our return ratios. Because for most of these businesses, we don't need significant CAPEX. Thank you very much.

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