April 10, 2023

Bharat Forge Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based / Working Capital Facilities	2,100.0	2,100.0	[ICRA]AA+ (Stable); reaffirmed
Long Term / Short Term – Fund Based / Term Loan	200.0	200.0	[ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
Non-Fund Based Facilities	700.0	700.0	[ICRA]A1+; reaffirmed
Long Term – Non Convertible Debentures	700.0	700.0	[ICRA]AA+ (Stable); reaffirmed
Issuer Rating	NA	NA	[ICRA]AA+ (Stable); reaffirmed
Long Term / Short Term – Unallocated Limits	59.0	59.0	[ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
Total	**3,759.0**	**3,759.0**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to take into account Bharat Forge Limited's (BFL's or the company's) leading position in the global automotive forgings industry, especially in the commercial vehicles (CV) chassis and engine component space. The ratings also consider the company's large scale of operations, diversified business portfolio with a strong customer base in the automotive and industrial segments across geographies, established relationships with leading global OEM for components supplied, and its technical capabilities. ICRA also notes that as part of its strategy to attain segmental diversification, BFL has been investing in the industrial components business. Further, favourable demand prospects and new orders, especially in the defence and aerospace sectors, are expected to support BFL's revenue growth and diversification prospects. The ratings also favourably factor in BFL's strong liquidity position with unencumbered cash and liquid investments of around Rs. 3,000 crore as of December 2022 on a consolidated level.

The rating strengths are partially offset by high working capital intensity demonstrated by BFL over the years, because of high quantum of exports leading to an elongated receivables position. ICRA also notes the underperformance in overseas subsidiaries, especially in the aluminium forging business, over the recent past, which has led to operating losses in the overseas subsidiaries, and suppression of the overall consolidated operating margins of BFL during 9M FY2023 (14.3% in 9M FY2023 from 19.0% in FY2022). Additionally, the contraction in earnings has resulted in an increased dependence on external borrowings, which coupled with the weakened earning profile has moderated credit metrics to some extent. While a gradual recovery is expected in the operational performance of these entities in the coming quarters, given resolution of challenges faced in ramping up the aluminium forging operations, and a robust order book position, the company's ability to make these entities self-sustainable and arrest further moderation in earnings or credit metrics, especially in the light of further capex/investments planned, would remain critical. Additionally, the impending implementation of USMCA norms, which mandates higher localisation content for entities operating in North America, and its impact on BFL's export prospects from India, would also remain a monitorable, going forward.

ICRA also notes that while diversification across industrial segments has helped mitigate some impact of the cyclicality in the CV segment during the recent downturn, BFL's dependence on the CV segment continues to remain high at ~41% of standalone revenues during 9M FY2023. Nevertheless, it is continuously working on diversifying its business portfolio by increasing the share of industrial and passenger car segments in its overall revenue pie. The company also demonstrates a diversified product profile and dual shore capabilities, strong engineering, design, and fully integrated manufacturing capabilities, which help it in maintaining steady share of business with leading OEMs and presence in new platform development programmes. While 10-12% of the company's consolidated revenue is at risk due to electrification in the automobile industry over the medium term, the focus on diversifying its product base across applications and end-user industries should help in mitigating this risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that the revenue growth momentum demonstrated by BFL in the recent past, aided by healthy volume off-take, is likely to be maintained over the near to medium term. While the consolidated profitability remains suppressed to an extent at present, it is expected to recover gradually in the coming quarters, aided by healthy order book position and resolution of challenges it faces in certain geographies.

Key rating drivers and their description

Credit strengths

Leadership position in CV engine and chassis components segment; strong customer base in domestic and international markets facilitated by strategic acquisitions – BFL is one of the leading players in the domestic chassis and engine component segments for CVs and is the main supplier to several leading domestic CV OEMs. Along with its subsidiaries, the company supplies forged components to several major global CV OEMs. Over the years, it has added new customers and geographies to diversify its business profile and clientele. The revival in demand for CVs after two years of tepid industry scenario (during the pandemic period) has supported the recovery in revenues over recent quarters and is expected to augur well for BFL over the near term.

Diversified product profile and dual shore capabilities; strong engineering, design and fully-integrated manufacturing capabilities help in maintaining healthy wallet share with leading OEMs and acquire new business – BFL's strong market position reflects its large scale of operations with facilities to supply a wide range of auto components. Its research and development infrastructure positions it as a complete solution provider, right from the conceptualisation and designing to the manufacturing and validation stages. BFL continues to benefit from its diversified product profile and dual shore capabilities developed over the years while its strong engineering, design and fully integrated manufacturing capabilities help the company in maintaining steady share of business with leading OEMs and presence in new platform development programmes.

Diversification through investments in industrial components business and favourable demand prospects, especially in defence, aerospace and locomotive sectors support long-term growth – To de-risk its business model from the cyclicality of the automobile industry and to support its growth prospects, BFL has been increasingly focusing on developing its industrial business vertical. The company has been supplying to industrial segments for applications in oil and gas, defence, aerospace, sugar, wind energy and a range of heavy engineering applications, which accounted for ~41% of its standalone revenues in 9M FY2023. Continuing its focus on attaining higher segmental diversification through inorganic acquisitions, BFL acquired a ferrous casting company, J S Auto Cast Foundry India Private Limited (J S Auto; rated [ICRA]A+(Stable)/[ICRA]A1) in June 2022. With incremental revenues from J S Auto, which caters primarily to the wind energy sector, and with new orders secured in the defence and aerospace sectors, along with healthy demand uptick from the oil and gas sector, the revenue growth and diversification prospects from the industrial vertical remains robust.

Strong liquidity profile – BFL's liquidity position remains strong, supported by sizeable cash and liquid investments of around Rs. 2,000 crore, along with healthy cash accruals and unutilised credit lines of more than Rs. 750 crore as on December 31, 2022, at a standalone level. At the consolidated level, the position is better, with cash and liquid investments of approximately Rs. 3,000 crore as on December 31, 2022, which are expected to support the company to comfortably service its debt servicing and capex requirements. Such a strong liquidity profile ensures that the company is able to sustain its business during a challenging operational environment, besides providing overall comfort to the credit metrics.

Credit challenges

Challenging operating environment across geographies; aluminium forging business in Europe and USA currently face operational challenges – While presence across different geographies provides BFL with geographic diversification benefits, it also exposes the company to different challenges specific to the geographies where it operates. During FY2023, challenges faced in the aluminium forging business of the company in Europe and USA led to an overall moderation in the financial performance at a consolidated level, with OPM moderating to 14.3% in 9M FY2023 from 19.0% in FY2022, and increased reliance on external borrowings on account of the same moderating its coverage metrics as well. The company's ability to successfully address such regional operational challenges remains a rating monitorable, going forward.

Despite diversification plans, exposure to highly cyclical CV segment both in India and international markets remains high – BFL's revenue can be broadly divided into revenues from the CV segment (~41% of standalone revenue in 9M FY2023), PV segment (~18%) and industrial segment (~41%). Given the cyclicality of the M&HCV segment, from which it derives major proportion of its revenues, BFL is working on diversifying its product base by increasing exposure to PV, locomotive, defence and aerospace components, where the demand is relatively stable. Furthermore, the auto component industry remains vulnerable to pricing pressures from the large OEMs. While 10-12% of the company's consolidated revenue is at risk due to electrification in the automobile industry, the focus on diversifying its product base across applications and end-user industries should help in mitigating the risk to an extent.

High working capital intensity and moderately leveraged capital structure – 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, since the discounting 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. Consequently, despite sizable borrowings on its books, overall net-interest expense (adjusting for income on liquid investments) is low.

Environmental and Social Risks

Environmental considerations: Since BFL is not directly exposed to climate transition risks from a likelihood of tightening emission control requirements, with the bulk of its product portfolio being used across different fuel powertrains, its automotive-manufacturer customers remain highly exposed to the same. Accordingly, BFL's prospects remain linked to the ability of its customers and suppliers to meet tightening emission requirements. The company may need to continue to invest materially to develop products to cater to electric vehicles (EVs), even as a transition towards the same in BFL's end-user segments is likely to be only gradual. BFL is continually taking measures to reduce its carbon emissions and is preparing an action plan to decarbonise its operations.

Social considerations: BFL, like most automotive component suppliers, has a healthy dependence on human capital; and as such, retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption free operations for the entity. The entity has been undertaking initiatives to enhance employee safety, besides imparting training, technical knowledge upgradation as well as quality initiatives towards improvement of their capacity and capabilities. Another risk that BFL faces pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, BFL's experience in catering to leading automotive manufacturers globally underpins its ability to mitigate these risks, to an extent.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by large, unencumbered cash and liquid investments of approximately Rs. 3,000 crore (consolidated) and sizable buffer of around Rs. 760 crore (standalone) in the form of undrawn bank lines as of December 2022. The liquidity profile is further enhanced by healthy cash accrual generation of ~Rs. 1,000-1,200 crore per annum, at a consolidated level. Against these, the company plans for capex of ~Rs. 800-1,000 crore annually and has debt repayment obligations of around Rs. 530 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade BFL's rating if the company demonstrates significant improvement in scale of operations and return indicators. Specific credit metrics, at a consolidated level, that could lead to an upgrade of BFL's rating include—(i.) Net debt-free status along with Total debt/ OPBITDA below 0.5 time on a sustained basis; and (ii.) reduction in dependency on the cyclical CV segment below 25% at the consolidated level.

Negative factors – Negative pressure on BFL's rating could arise in case of sustained slowdown in key end-user industries, thereby exerting pressure on profitability and coverage indicators. Also, large debt-funded acquisition or capacity expansion, which could adversely impact the capital structure, would trigger a negative rating action. Specific credit metrics that could lead to a rating downgrade include Net debt/ OPBITDA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Bharat Forge Limited. Subsidiary details including direct as well as step-down subsidiaries are all enlisted in Annexure-2.

About the company

Incorporated in 1961, Bharat Forge Limited is the flagship company of the Pune-based Kalyani Group, which has interests in forging, auto components, speciality steels, infrastructure, renewable energy and speciality chemicals businesses. BFL is the largest forging company in India and among the largest players in the world, second only to Thyssen Krupp in terms of installed capacity and revenues. BFL has a diversified global customer base including the top five CV and PV manufacturers in the world and caters to key global automotive OEMs and Tier I suppliers.

The company's business broadly comprises two segments—(i.) auto components (~55-60% of standalone revenues) and (ii.) non-automotive components (~40-45% of standalone revenues). BFL's auto components segment primarily manufactures forging-based engine and chassis components with focus on crankshafts and front-axle beams. It is one the leading suppliers of crankshafts and front-axle beams to CV OEMs in India, Europe and North America, and enjoys a sizeable share of business with the leading OEMs. In terms of its geographical mix, BFL caters to North American, European as well as Indian markets. Over the years, BFL has followed a two-pronged diversification strategy. During the first phase, the company diversified its presence across markets through a series of overseas acquisitions and transformed its business model from being a forgings-based auto component company with domestic market presence to an entity with global scale and customer base. As part of the next phase, it will diversify its presence into non-automotive applications.

Key financial indicators

BFL (consolidated)	FY2021 Audited	FY2022 Audited	H1 FY2023 Unaudited
Operating Income (Rs. crore)	6,344.9	10,472.5	5,927.8
PAT (Rs. crore)	-97.0	1,110.1	304.6
OPBDIT/OI (%)	13.7%	19.0%	14.5%
PAT/OI (%)	-1.5%	10.6%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.3	1.5
Total Debt/OPBDIT (times)	6.1	3.0	3.8
Interest Coverage (times)	8.0	12.4	9.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: BFL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current Rating (FY2024)					Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated	Amount Outstanding as of Dec 31, 2022	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
			(Rs. crore)	(Rs. crore)	10-Apr-23	12-Apr-22	7-Oct-21	30-Jul-21	31-Jul-20
1	Fund Based Facilities	Long-term	2,100.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)
2	Non Fund Based Facilities	Short-term	700.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Convertible Debentures	Long-term	700.0	700.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)
4	Unallocated Facilities	Long-term/ Short-Term	59.0	-	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	-
5	Term Loan	Long-term/ Short-term	200.0	200.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-
6	Term Loan	Long-term	-	-	-	-	-	-	[ICRA]AA+(Negative)
7	Issuer Rating	Long-term	NA	NA	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Working Capital Facilities	Simple
Long Term / Short Term – Fund Based / Term Loan	Simple
Non-Fund Based Facilities	Very Simple
Long Term – Non Convertible Debentures	Very Simple
Issuer Rating	Not Applicable
Long Term / Short Term – Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based Facilities	NA	NA	NA	2,100.0	[ICRA]AA+ (Stable)
NA	Non Fund Based Facilities	NA	NA	NA	700.0	[ICRA]A1+
INE465A08012	Non-Convertible Debenture	Aug-2020	5.97%	Aug-2025	500.0	[ICRA]AA+ (Stable)
INE465A08020	Non-Convertible Debenture	Apr-2022	5.80%	Apr-2025	200.0	[ICRA]AA+ (Stable)
NA	Unallocated Limits	NA	NA	NA	59.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Term Loan	Apr-2022	NA	Mar-2028	200.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA+ (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	BFL Ownership	Consolidation Approach
Direct Subsidiaries/Joint Ventures/Associates		
Bharat Forge Global Holding GmbH	100.00%	Full Consolidation
Bharat Forge International Limited	100.00%	Full Consolidation
Bharat Forge America Inc.	100.00%	Full Consolidation
BF Infrastructure Limited	100.00%	Full Consolidation
Kalyani Strategic Systems Limited	51.00%	Full Consolidation
Kalyani Powertrain Limited	100.00%	Full Consolidation
BF Industrial Solutions Limited	100.00%	Full Consolidation
Analogic Controls India Limited	100.00%	Full Consolidation
BF Elbit Advanced Systems Private Limited	51.00%	Full Consolidation
Eternus Performance Materials Private Limited	51.00%	Full Consolidation
Kalyani Centre for Precision Technology Limited	100.00%	Full Consolidation
Indigenous IL Limited	NA	Full Consolidation
Step Down Subsidiaries/Joint Ventures/Associates		
Tork Motors Private Limited[1]	64.29%	Full Consolidation
Lycan Electric Private Limited	64.29%	Full Consolidation
Bharat Forge Holding GmbH	100.00%	Full Consolidation
Bharat Forge Aluminiumtechnik GmbH	100.00%	Full Consolidation
Bharat Forge Kilsta AB	100.00%	Full Consolidation
Bharat Forge CDP GmbH	100.00%	Full Consolidation
Bharat Forge Daun GmbH	100.00%	Full Consolidation
Bharat Forge CDP Trading	NA	Full Consolidation
Mecanique Generale Langroise	100.00%	Full Consolidation
Bharat Forge PMT Technologie LLC	100.00%	Full Consolidation
Bharat Forge Tennessee Inc.	100.00%	Full Consolidation
Bharat Forge Aluminium USA, Inc.	100.00%	Full Consolidation
Kalyani Mobility, Inc.	100.00%	Full Consolidation
BF Industrial Technology & Solutions Limited	100.00%	Full Consolidation
Sanghvi Europe B.V.	100.00%	Full Consolidation
BFIL-CEC JV	74.00%	Full Consolidation
Kalyani Rafael Advanced Systems Private Limited	50.00%	Full Consolidation
Kalyani Strategic Systems Australia Pty Limited	NA	Full Consolidation
Sagar Manas Technologies Limited	100.00%	Full Consolidation

Company Name	BFL Ownership	Consolidation Approach
BF Premier Energy Systems Private Limited	50.00%	Equity Method
Aeron Systems Private Limited	37.14%	Equity Method
BF NTPC Energy Systems Limited[2]	51.00%	Equity Method
Talbahn GmbH	35.00%	Equity Method
FerroviaTransrail Solutions Private Limited	49.00%	Equity Method
Refu Drive GmbH	50.00%	Equity Method
Refu Drive India Private Limited	50.00%	Equity Method

Source: *BFL annual report FY2022; [1]Converted to subsidiary with effect from November 22, 2021; [2]Not consolidated as the shareholders of the Joint Venture Company decided to voluntarily liquidate the joint venture at their EGM held on October 9, 2018*

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