

September 23, 2019

Bharat Forge Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Term Loan/ECB	USD50 Million	USD35 Million	[ICRA]AA+(Stable); Reaffirmed
Fund-based Facilities	Rs.1500.00 crore	Rs.2100.00 crore	[ICRA]AA+(Stable) Reaffirmed; Assigned to the enhanced portion
Non-fund Based Facilities	Rs.400.00 crore	Rs.700.00 crore	[ICRA]A1+ Reaffirmed; Assigned to the enhanced portion

*Instrument details are provided in Annexure-1

Rationale

The ratings reflect BFL's comfortable coverage indicators supported by its healthy cash accruals from operations and robust liquidity position with unencumbered cash and liquid investments of over Rs. 1,800 crore as of March 2019 on a consolidated basis. The ratings also draw comfort from BFL's leading position in the global automotive forgings industry, especially in the CV chassis and engine component space; its large scale of operations; diversified business portfolio with a strong and diversified customer base across auto and industrial segments and geographies, and its technical capabilities. The rating strengths are partially offset by BFL's high working capital intensity, however, with a sizeable portion of debt involving bill discounted of reputed customers. The capital structure also remains moderately leveraged as compared to other auto component suppliers in the similar rating level. While diversification across industrial segments has helped in mitigating some impact of the cyclicity in commercial vehicle (CV) segment during the recent downturn, BFL's dependence on cyclical CV segment (44% of consolidated turnover in FY2019) will continue to remain high over the medium term.

Given the ongoing slowdown in automotive space in the domestic as well as International market, BFL's revenue as well as profitability is likely to witness pressure in the near to medium term. At a consolidated level, in FY2020, BFL will be investing about ~Rs. 800-1,000 crore towards new product developments and capacity expansion, which will include greenfield as well as brownfield capacity expansion in India, the USA and Europe. The benefits of these capex will start accruing from FY2021 onwards, and ICRA expects liquidity position is expected to remain strong in the interim, despite these sizeable investments.

BFL's revenue grew by robust 21% in FY2019, supported by strong performance in the Commercial Vehicles segment, especially in exports market as well as in the Industrial business segment. BFL is continuously working on diversifying its business portfolio by increasing the share of industrial segment in its overall revenue pie. The focus is mainly towards O&G, locomotive, Defence, mining and aerospace components, where the demand is relatively stable as compared to cyclical M&HCV segment towards which it has high exposure at present. Going forward, company's ability to maintain its cost structure and profitability level, despite headwinds in the underlying end user industries like CV and O&G segment remain a key monitorable.

Key rating drivers

Credit strengths

Leadership position in the CV engine and chassis components segment; strong customer base in domestic and international markets facilitated by strategic acquisitions - BFL is a market leader in the domestic chassis and engine component segments for CV by the virtue of being the main supplier to the leading domestic CV OEMs. BFL along with its subsidiaries also supply forged components to all major global CV OEMs. Over the years, it has added new customers and geographies to further diversify its business profile and clientele.

Diversified product profile and dual shore capabilities; strong engineering, design and fully-integrated manufacturing capabilities help in maintaining steady share of business with leading OEMs and improved traction in new platform development programmes - BFL's strong market position reflects its large scale of operations (with facilities to supply entire range of auto-components) and research and development infrastructure that allows the company to enjoy the status of a complete solution provider right from conceptualisation and designing stage to manufacturing and validation stage.

Diversification through investments in industrial components business and favourable demand prospects especially in Defence, aerospace and locomotive sector support long-term growth - To de-risk its business model from the cyclicity of the automobile industry, BFL has been increasingly focussing on its industrial business with a varied product mix including forged and machined products. BFL has been supplying to industrial segments for applications in oil and gas, wind energy and a range of heavy engineering applications, which accounted for 44% of its consolidated turnover in FY2019.

Strong liquidity Profile- BFL's liquidity position remains strong supported by sizeable liquid investments (over Rs. 1,800 crore as of March 2019 on a consolidated basis), healthy cash accruals and unutilised credit lines of over Rs. 500 crore.

Credit challenges

High working capital intensity - Owing to high exports, BFL's receivable cycle is stretched which resulted in high working capital intensity. To improve cash flows, BFL discount invoices of its overseas customers, as discounting rate is substantially lower than the domestic funding rate. As of March 2019, discounted bills accounted for 34% of BFL's consolidated debt of Rs. 4,029 crore. With exports accounting for sizeable share of overall revenue, the receivable cycle as well as working capital intensity is expected to remain high over the medium term.

Challenging operating environment across geographies; though cost rationalisation efforts has helped in improving the break-even levels - Thanks to its lean cost structure and superior product mix, BFL has been able to sustain healthy operating margin despite a decline in volume amid the challenging demand environment in its end-user industries. Going forward, company's ability to maintain its cost structure and profitability level, despite headwinds in the underlying end user industries like CV and O&G segment remain a key monitorable.

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 CV (44% of consolidated revenue), PV (12%) and industrial segment (44%). BFL is working on diversifying its product base by increasing its exposure to passenger vehicle, locomotive, Defence and aerospace components, where the demand is relatively stable as compared to the cyclical M&HCV segment. It is focused on diversifying its business portfolio through product diversification and focusing on industrial business segment. The auto-component industry also remains vulnerable to pricing pressures from the large OEMs.

Anti-dumping duty or any other customs duty on the US auto-component imports will have a bearing on BFL's performance - BFL has high dependency on the US market and any restrictive duty on the US auto-component imports could have a bearing on its performance.

Liquidity position: Strong

Company's liquidity profile is strong, supported by large unencumbered cash & liquid investments of over Rs 1,800 crore as on June 2019 and undrawn bank lines of over Rs 500 crore as on June 2019. Despite headwinds in the key end user industry as well as sizeable capex & investment plans, liquidity profile is expected to remain strong because of strong cash accruals. Management has guided to maintain cash & liquid investments to the tune of Rs 1,000 – 1,200 crore on the sustained basis.

Rating sensitivities

Positive triggers – ICRA could upgrade BFL's rating if the company demonstrates significant improvement in scale of operations and return indicators (RoCE more than 25%). Specific credit metrics, at consolidated level, that could lead to an upgrade of BFL's rating include (1) Net Debt free status along with Total Debt/ OPBITDA below 0.5 times on a sustained basis; and (2) reduction in dependency on cyclical CV segment below 25% level from current 44%.

Negative triggers – Negative pressure on BFL's rating could arise in case of sustained slowdown in key end user industry, thereby exerting pressure on profitability and coverage indicators. Also, Large debt funded acquisition or capacity expansion, which could adversely impact capital structure would trigger a negative rating action. Specific credit metrics that could lead to a downgrade of BFL's rating 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 Suppliers
Parent / Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Bharat Forge Limited. As on March 31, 2019, the company had 27 subsidiaries including direct as well as step down subsidiaries, which are all enlisted in Annexure-2.

About the company:

Incorporated in 1961, BFL is the flagship company of the Pune-based Kalyani Group, which has interest in forging, auto components, speciality steels, Infrastructure, renewable energy and speciality chemicals business. BFL is the largest forging company in India and amongst the largest player in the world second only to Thyssen Krupp in terms of its installed capacity and revenues. BFL has a diversified global customer base including the top-five CV and PV manufacturers in the world. BFL's customer base includes virtually every global automotive OEM and Tier I supplier.

The company's business broadly comprises two segments – (i) auto components (56% of consolidated revenue) and (ii) non-automotive components (44% of consolidated revenue). Within the auto-components segment, BFL 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 leading OEMs. In terms of its geographical mix, America is the largest market for BFL in

term of turnover followed by India and Europe. Over the years, BFL has followed a two-pronged diversification strategy. While 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-components company with domestic market presence to an entity with global scale and customer base, during the next phase, it has diversified its presence in the non-automotive applications.

Key financial indicators

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	8357.7	10145.7
PAT (Rs. crore)	753.9	2031.8
OPBDIT/OI (%)	20.6%	20.0%
RoCE (%)	17.7%	21.4%
Total Debt/TNW (times)	0.7	0.7
Total Debt/OPBDIT (times)	1.9	2.0
Interest Coverage (times)	16.2	16.0

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
		Amount Rated	Amount Outstanding*	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Term Loan	Long-term	USD35 Million	USD 35 Million	[ICRA]AA+ (Stable) 23-September 2019	[ICRA]AA+ (Stable) 27-July 2018	[ICRA]AA+ (Stable) 04-August 2017	[ICRA]AA+ (Stable) 05-July 2016
2 Fund-based Facilities	Long-term	Rs.2100.00 crore	Rs.1591.00 crore	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3 Non-fund Based Facilities	Short-term	Rs.700.00 crore	Rs.258.00 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: The company; *: Amount outstanding as on June 30, 2019

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Term Loan/ECB	March 2015	3M Libor+65 to 225 bps	March 2021	USD 35 Million	[ICRA]AA+ (Stable)
NA	Fund-based Facilities	-	NA	-	2100.00	[ICRA]AA+(Stable)
NA	Non-fund Based Facilities	-	NA	-	700.00	[ICRA]A1+

Source: The company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Direct Subsidiaries		
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
Analogic Controls India Limited	100.00%	Full Consolidation
BF Elbit Advanced Systems Private Limited	51.00%	Full Consolidation
Indigenous Limited	NA	Full Consolidation
Talbahn GmbH	35.00%	Equity Method
Ferrovial Transrail Solutions Private Limited	49.00%	Equity Method
Hospet Bellary Highways Private Limited	35.00%	Equity Method
Tork Motors Private Limited	45.30%	Equity Method
Tevva Motors (Jersey) Limited	35.26%	Equity Method
Step Down Subsidiaries		
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	100.00%	Full Consolidation
Mecanique Generale Langroise	100.00%	Full Consolidation
Bharat Forge Hong Kong Limited	100.00%	Full Consolidation
Bharat Forge PMT Technologies LLC	100.00%	Full Consolidation
Bharat Forge Tennessee Inc.	100.00%	Full Consolidation
BFIL-CEC JV	100.00%	Full Consolidation
Kalyani Rafael Advanced Systems Private Limited	50.00%	Full Consolidation
Lycan Electric Private Limited	100.00%	Equity Method
BF Premier Energy Systems Private Limited	50.00%	Equity Method
BF NTPC Energy Systems Limited (under liquidation)	51.00%	Equity Method

ANALYST CONTACTS

Subrata Ray

+91 22 2433 1086
subrata@icraindia.com

Ashish Modani

+91 20 6606 9912
ashish.modani@icraindia.com

Pavan Rajkumar Agrawal

+91 20 6606 9916
pavan.agrawal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents