July 30, 2021

Bharat Forge Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	2100.00	2100.00	[ICRA]AA+ reaffirmed; outlook revised to Stable from Negative
Non-fund Based Facilities	700.00	700.00	[ICRA]A1+ reaffirmed
Long term – Bonds/NCD/LTD	500.00	500.00	[ICRA]AA+ reaffirmed; outlook revised to Stable from Negative
Total	**3300.00**	**3300.00**	

Instrument*	Previous Rated Amount (million USD)	Current Rated Amount (million USD)	Rating Action
Long-term – Fund-based TL (Term Loan/ECB)^	35.00	0.00	-
Long-term / short-term – Unallocated	0.00	35.00	[ICRA]AA+/[ICRA]A1+ reaffirmed; outlook revised to Stable from Negative

**Instrument details are provided in Annexure-1; ^ Term loan of USD 35 million was repaid in full in March 2021*

Rationale

The long-term outlook revision to Stable from Negative reflects ICRA's expectation that the profitability and revenue momentum demonstrated by Bharat Forge Limited (BFL or the company) towards the end of FY2021, particularly in Q4 FY2021, are likely to be maintained in the current fiscal as well, thereby, resulting in improvement in profitability and debt coverage indicators. Supported by strong export demand as well as recovery in the domestic commercial vehicle (CV) industry, BFL will be generating strong revenue growth in FY2022 after two consecutive years of decline. Improved operating leverage benefits in standalone operations as well as turnaround of overseas subsidiaries should translate into substantial improvement in profitability and debt coverage indicators in the near to medium term, despite commodity related pressure during Q1 FY2022. Against the backdrop of strong accruals, at a consolidated level, BFL's net-debt/OPBIDTA is likely to improve to 1.5-1.7 times in FY2022 over 2.7 times in FY2021.

The ratings continue to draw comfort from BFL's strong liquidity position with unencumbered cash and liquid investments of over Rs. 2,900 crore as of March 2021 on a consolidated basis. The ratings continue to reflect BFL's leading position in the global automotive forgings industry, especially in the CV chassis and engine component space. The ratings note its large scale of operations, diversified business portfolio with a strong customer base across auto and industrial segments across geographies, and its technical capabilities.

The ratings, however, remain constrained by high working capital intensity demonstrated by BFL over the years, with high degree of exports leading to stretched receivables position. The company continues to face challenging operating environment across geographies, although recent manpower rationalisation efforts by the group have helped in improving the break-even levels across subsidiaries.

While diversification across industrial segments have helped in mitigating some impact of the cyclicality in the CV segment during the recent downturn, BFL's dependence on the CV segment is likely to remain high over the medium term. It is continuously working on diversifying its business portfolio by increasing the share of industrial segment, passenger car segment and aluminium content 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 help in maintaining steady share of business with leading OEMs and improved traction in new platform development programmes. While company's 10-12% of consolidated revenue is at risk due to electrification in automobile industry, the focus on diversifying its product base across applications and end user industries should help in mitigating risk to an extent. Going forward, the company's ability to maintain its cost structure and profitability level, despite headwinds in the underlying end-user industries such as the CV and industrial segments remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that BFL will continue to benefit from the established track record in the forging business. The efforts undertaken by the company to diversify into non-automotive segments are expected to provide incremental revenue visibility as well as higher segmental diversification to BFL, going forward.

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 the market leader in the domestic chassis and engine component segments for CVs. It is the main supplier to leading domestic CV OEMs. Along with its subsidiaries, the company supplies forged components to all major global CV OEMs. Over the years, it has added new customers and geographies to 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). Its research and development infrastructure allows the company to enjoy the status of a complete solution provider right from the conceptualisation and designing stage to the manufacturing and validation stage. BFL continues to benefit from its diversified product profile and dual shore capabilities developed over the years. BFL's strong engineering, design and fully-integrated manufacturing capabilities help the company in maintaining steady share of business with leading OEMs and improved traction in new platform development programmes.

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 cyclicality of the automobile industry, BFL has been increasingly focussing on its industrial business with a varied product mix including forged and machined products. The company has been supplying to industrial segments for applications in oil and gas, wind energy and a range of heavy engineering applications, which accounted for ~40% of its standalone turnover in FY2021.

Strong liquidity profile - BFL's liquidity position remains strong, supported by sizeable liquid investments of over Rs. 2,900 crore, along with healthy cash accruals and sizable unutilised credit lines.

Credit challenges

High working capital intensity and moderately leveraged capital structure – Owing to high exports, BFL's receivable cycle is stretched, which resulted in high working capital intensity. To improve its cash flows, the company discounts invoices of its overseas customers, as discounting rate is substantially lower than the domestic funding rate. Due to the decline in turnover in FY2021, there was short-term aberration in working capital cycle (NWC/OI). Consequently, the working capital intensity remained higher for FY2021, although the same is expected to moderate going forward. Majority of BFL's debt is low cost foreign currency debt which also provides it a natural hedge against exports. Consequently, despite sizable borrowings on its books, overall net-interest expense (adjusting for income on liquid investments) is low.

Challenging operating environment across geographies; though manpower rationalisation efforts has helped in improving break-even levels – With 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 in the recent past. Going forward, the company's ability to maintain its cost structure and profitability level, despite headwinds in the underlying end-user industries such as CV and industrial segments 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 (~40% of standalone revenue in FY2021), PV (~20%) and industrial segment (~40%). It is working on diversifying its product base by increasing exposure to PV, locomotive, defence and aerospace components, where the demand is relatively stable compared to the cyclical M&HCV segment. It aims to diversify its business portfolio through product diversification and focussing on the industrial business segment. The auto component industry remains vulnerable to pricing pressures from the large OEMs. While company's 10-12% of consolidated revenue is at risk due to electrification in automobile industry, the focus on diversifying its product base across applications and end user industries should help in mitigating risk to an extent.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by large unencumbered cash and liquid investments of over Rs. 2,900 crore and sizable undrawn bank lines as of March 2021. Despite headwinds in the key end-user industry as well as moderate capex and investment plans, BFL's liquidity profile is expected to remain healthy due to strong cash accruals. The management has guided to maintain cash and liquid investments to the tune of Rs. 1,500 crore on a sustained basis.

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 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% at consolidated level

Negative factors – 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 Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Bharat Forge Limited. Subsidiaries details including direct as well as step-down subsidiaries are all enlisted in Annexure-2.

About the company

Incorporated in 1961, BFL is the largest forging company in India and one of the largest players in the world, second only to Thyssen Krupp, in terms of its installed capacity and revenues. It 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 (60% of standalone revenue) and (ii) non-automotive components (40% of standalone 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 the leading OEMs. In terms of its geographical mix, America is the largest market for BFL in terms of turnover, followed by India and Europe. 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. Over the next phase, it has diversified its presence in the non-automotive applications.

Key financial indicators

Consolidated	FY2020 Audited	FY2021 Audited
Operating Income (Rs. crore)	8,055.8	6,336.3
PAT (Rs. crore)	392.1	-97.0
OPBDIT/OI (%)	13.8%	13.6%
PAT/OI (%)	4.9%	-1.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.4
Total Debt/OPBDIT (times)	3.6	6.1
Interest Coverage (times)	6.5	8.0

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					July 30, 2021	July 31, 2020	March 13, 2020	September 23, 2019	July 27, 2018
1	Fund Based Facilities	Long-term	2,100.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)	[ICRA]AA+(Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Non Fund Based Facilities	Short-term	700.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Convertible Debenture	Long-term	500.00	500.00	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)	-	-	-
4	Unallocated	Long-term/ Short-term	35.00*	-	[ICRA]AA+ (Stable) / [ICRA]A1+	-	-	-	-
5	Term Loan^	Long-term	-	-	-	[ICRA]AA+(Negative)	[ICRA]AA+(Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

** USD 35 million; Term loan of USD 35 million was repaid in full in March 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based / Cash Credit	Simple
Long Term – Bonds/NCD/LTD	Simple
Short Term – Non Fund Based	Simple
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, is available on ICRA's website: www.icra.in

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	500.00	[ICRA]AA+ (Stable)
NA	Unallocated Limits	NA	NA	NA	35.00*	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: *Company, *USD 35 million*

Annexure-2: List of entities considered for consolidated analysis

Company Name	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
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
Tork Motors Private Limited	48.86%	Equity Method
Tevva Motors (Jersey) Limited	36.51%	Equity Method
Step Down Subsidiaries/Joint Ventures/Associates		
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 Hong Kong Limited	NA	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 Precision Machining, Inc.	100.00%	Full Consolidation
BFIL-CEC JV	74.00%	Full Consolidation
Kalyani Rafael Advanced Systems Private Limited	50.00%	Full Consolidation
Lycan Electric Private Limited	48.86%	Equity Method
Tork Motors (UK) Limited	NA	Equity Method
BF Premier Energy Systems Private Limited	50.00%	Equity Method
Aeron Systems Private Limited	37.14%	Equity Method
BF NTPC Energy Systems Limited*	51.00%	Equity Method
Talbahn GmbH	35.00%	Equity Method
FerroviaTransrail Solutions Private Limited	49.00%	Equity Method
Hospet Bellary Highways Private Limited	NA	Equity Method
Refu Drive GmbH	50.00%	Equity Method
Refu Drive India Private Limited	50.00%	Equity Method
Tevva Motors Limited	17.89%	Equity Method

**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*

Source: *Company*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

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

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3400
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

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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