April 12, 2022

Bharat Forge Limited: Ratings reaffirmed, rated amount enhanced; [ICRA]AA+ (Stable) assigned to the enhanced Non-Convertible Debenture limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	2,100.0	2,100.0	[ICRA]AA+(Stable); reaffirmed
Non-fund Based Facilities	700.0	700.0	[ICRA]A1+; reaffirmed
Long Term – Bonds / NCD / LTD	500.0	500.0	[ICRA]AA+(Stable); reaffirmed
Long Term – Bonds / NCD / LTD	0.0	200.0	[ICRA]AA+(Stable); assigned
Long Term / Short Term, Fund-based / Term Loan	0.0	200.0	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Issuer Rating	0.0	NA	[ICRA]AA+(Stable); reaffirmed
Long Term / Short Term – Unallocated	259.0^	59.0	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Total	**3,559.0**	**3,759.0**	

Instrument details are provided in Annexure-1; ^USD 35 million / Rs. 259 crore

Rationale

The rating action continues to take into account Bharat Forge Limited's (BFL or the company) 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 auto and industrial segments across geographies, and its technical capabilities. The ratings favourably factor in BFL's strong liquidity position with unencumbered cash and liquid investments of around Rs. 2,700 crore as of September 2021 on a consolidated basis. ICRA also takes note of the significant revenue growth as well as profitability improvement anticipated in FY2022, as the company has already surpassed FY2021 revenue mark in 9M FY2022, on both consolidated and standalone levels. After reporting ~21% YoY de-growth in FY2020 and FY2021 (on consolidated level), BFL is expected to demonstrate decent revenue growth in FY2022. The operating margin is also expected to show visible improvement in FY2022 after reporting subdued margins in the previous two fiscals – the company had operating margin of 13-14% on consolidated level in FY2020-FY2021, which improved to 21.2% in 9M FY2022, largely driven by operating leverage.

The rating strengths are partially offset by high working capital intensity demonstrated by BFL over the years, because of high degree of exports leading to elongated receivables position. The recent manpower rationalisation efforts by the group have helped in improving the break-even levels across subsidiaries.

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 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 10-12% of the company's consolidated revenue is at risk due to electrification in automobile industry over the medium term, the focus on diversifying its product base across applications and end user industries should help in mitigating risk to an extent. BFL also plans to widen its presence in the electronic vehicles (EV) space over the near to medium term. The recent/ongoing acquisition drives are expected to provide BFL with higher sectoral diversification, specifically in the EV and non-automotive segments.

The Stable outlook on the long-term rating reflects ICRA's expectation that the profitability and revenue momentum demonstrated by BFL during FY2022, are likely to be maintained over the near term, thereby, resulting in steady improvement in profitability and debt coverage indicators. Supported by strong export demand as well as recovery in the domestic CV industry, BFL's revenue visibility remains comfortable over the next 1-2 years. Improved operating leverage benefits in standalone operations as well as turnaround of overseas subsidiaries should translate into comfortable profitability and debt coverage indicators in the near to medium term, despite commodity related pressures observed in the recent past.

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. The revival in demand for CVs after two years of tepid industry scenario 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 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 focusing 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 ~45% of its standalone turnover in 9M FY2022.

Strong liquidity profile - BFL's liquidity position remains strong, supported by sizeable liquid investments of around Rs. 2,700 crore, along with healthy cash accruals and unutilized credit lines of Rs. 200+ crore as on September 30, 2021. Such comfortable liquidity position ensures limited dependence on the external borrowings to fund the sizeable capital expenditure drives.

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. While the inventory level has comparatively been higher in the recent past, the same is expected to reduce gradually as operational normalcy resumes across industries and geographies. To improve its cash flows, the company discounts invoices of its overseas customers, as discounting rate is substantially lower than the domestic funding rate. 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 have 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 remains a key monitorable. Most of the overseas subsidiaries of BFL have demonstrated improvement in business operations on back of visible recovery in demand across key business verticals.

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 (~42% of standalone revenue in 9M FY2022), PV (~14%) and industrial segment (~44%). 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 focusing 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 the risk to an extent.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by large, unencumbered cash and liquid investments of around Rs. 2,700 crore and sizable undrawn bank lines of Rs. 200+ crore as of September 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 (~55% of standalone revenue) and (ii) non-automotive components (~45% 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 (audited)

BFL Consolidated	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	8,055.8	6,336.3	4,493.3
PAT (Rs. crore)	392.1	-97.0	443.0
OPBDIT/OI (%)	13.8%	13.6%	21.4%
PAT/OI (%)	4.9%	-1.5%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.4	1.4
Total Debt/OPBDIT (times)	3.6	6.1	3.0
Interest Coverage (times)	6.5	8.0	13.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current Rating (FY2023)					Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated	Amount Outstanding as of Dec 31, 2021	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	
			(Rs. crore)	(Rs. crore)	12-Apr-22	7-Oct-21	30-Jul-21	31-Jul-20	13-Mar-20	23-Sep-19
1	Fund Based Facilities	Long-term	2,100	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)	[ICRA]AA+(Negative)	[ICRA]AA+ (Stable)
2	Non Fund Based Facilities	Short-term	700	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-Convertible Debentures	Long-term	500	500	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)	-	-
4	Non-Convertible Debentures	Long-term	200	0.0[1]	[ICRA]AA+ (Stable)	-	-	-	-	-
5	Unallocated Facilities	Long-term/ Short – Term	59*	-	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	-	-	-
6	Term Loan	Long-term/ Short-term	200	0.0[2]	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-	-	-
7	Term Loan	Long-term	-	-	-	-	-	[ICRA]AA+(Negative)	[ICRA]AA+(Negative)	[ICRA]AA+ (Stable)
8	Issuer Rating	Long-term	NA	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+(Negative)	[ICRA]AA+(Negative)	[ICRA]AA+ (Stable)

**Previously rated amount was USD 35 million; [1]Not yet placed, [2]Not yet disbursed*

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
Term Loan	Simple
Unallocated Limits	Not Applicable
Issuer Rating	Simple

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 analyzing 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	500.0	[ICRA]AA+ (Stable)
Not placed	Non-Convertible Debenture[1]	NA	NA	NA	200.0	[ICRA]AA+ (Stable)
NA	Unallocated Limits	NA	NA	NA	59.0*	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Term Loan[2]	NA	NA	NA	200.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA+ (Stable)

Source: *Company; * Previously rated amount was USD 35 million; [1]Not yet placed, [2]Not yet disbursed*

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

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*

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