



“Bharat Forge Limited
Q3 & 9 Months FY '26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day and welcome to Bharat Forge Limited Q3 and 9 months FY26 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 star then zero on your touchstone 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, Mr. Kalyani.

Amit Kalyani: Thank you. Good afternoon, ladies and gentlemen, and thank you for your time and interest in joining our earnings call for the third quarter FY26. I trust that you've seen the numbers and gone through what we've put out. Before that, I'll introduce you to the team that I have with us. I have my colleague from the Board, Subodh. I have our Group CFO, I have our CFO Kedar, our Head of Investor Relations, Raj, and his colleague Chinmay. And we are happy to take you through our quarter and answer whatever questions you have. So over to Kedar and he'll take you through a synopsis.

Kedar Dixit: Hi, good afternoon, everyone. I'll take you through the standalone business highlights for quarter three and nine months ended for FY26. The standalone revenues were up 7% sequentially to about INR2,084 crores and EBITDA at INR569 crores, which shows a growth of 4.6% quarter on quarter with an EBITDA margin of 27.3%. This includes a tariff cost impact of INR31 crores.

The performance was aided by strong growth in domestic automotive business and execution of defense order book. Continued destocking in North America truck market had an adverse impact on export revenues in quarter three. While the auto sector was down 13%, the industrial witnessed sharp 11% growth. This was mainly on account of improved business in Oil and Gas, Aerospace business.

To put things in perspective, North American truck market revenues are down 51% as compared to quarter three of last year. We had a one-time impact of 487 million on account of changes in labour code. This is mainly to do with the gratuity provision for the past services. Standalone revenues for nine months was INR6,135 crores with EBITDA margin at 27.7%. Balance sheet continues to remain strong with debt to equity net of cash of only 0.15.

At the end of this year, we'll have a long-term debt of only INR600 crores on our balance sheet. Quarter three consolidated revenues came in at INR4,343 crores and EBITDA margin at 17.3%. Stable performance in overseas subsidiaries and improving execution in defense helped the overall performance. For nine months, consolidated revenue was INR12,284 crores with EBITDA margin of 17.5%.

Indian subsidiaries continue to perform well. JSA, which is our casting business, saw their top line and EBITDA growth by strong 22% and 39% respectively. K Drive, which is our recent acquisition, saw a muted top line but good jump in EBITDA from 3% to about 5% in this quarter. In last quarter, the company had secured new business worth INR2,388 crores across all key businesses, which includes the component business of INR378 crores, defense of INR1,878 crores, casting INR78 crores, and K Drive INR55 crores.

Talking about the overseas subsidiaries, the European operations were stable amidst the patchy demand due to holiday season. Utilizations levels in quarter three were about 60% to 65%. During the quarter, EU operations recorded an EBITDA of INR39 crores. US Aluminum had a stable quarter given the sentiment in North American passenger car market. The US operations recorded EBITDA of about INR10 crores for quarter three.

The tariff on aluminum into US is impacting the profitability and demand in this business. Current utilization level of aluminum business in the US is about 65%. For nine months performance, we continue to work on the improvement in our overseas business. So for nine months, the US losses were down almost 50% and we are seeing a lower losses at EU level. And while we continue to improve our operation, we also continue to evaluate restructuring operations for our European steel business and we will update the progress by end of this fiscal.

Now I will hand over to Amit sir for his comments.

Amit Kalyani:

Yes. So, ladies and gentlemen, thank you. Just want to tell you that, we entered into all this uncertainty very suddenly and by God's grace and, the government and everybody doing their job, we've also come out of this mess in a very sudden manner. I hope that the positivity translates into real action and I see early signs of that.

So we have a good amount of confidence that the worst is behind us and that I think we have strengthened our position, we have further developed new products and you will see that evidence in the next few years how we are building new segments for our company which have growth potential and are the kind of products and technologies that will give us a very good future.

I think on the domestic front, the GST reforms have given a boost to the automotive industry and also take the industry players by surprise. In fact, the growth was almost unmanageable by them. The recent announcement with the trade deal has also been positive and coupled with the CV market in the US bottoming out and beginning to show higher order intake will also give us a lot of momentum.

It's a deja vu of 2019 where every period of ours was witnessing a strong growth. I'm also very happy to report that our acquisition of JSA little over three years ago -- has worked out very well for us. We have now brought in a very high quality investor in the form of Premji Invest, which has invested to take a meaningful stake in the company and it's 23% at a valuation of INR1,300 crores.

So that values our investment at a multiple, you know, three and a half to four times of what we had bought it for. So our team has done a good job and I think that the overall collaboration between our automotive business, the casting business and our customers has worked very well and will give us plenty of growth going forward. The CV sector for Q4 India looks very strong and may continue into first half of next year.

Exports seem to have bottomed out and we should see a gradual improvement from here. On defense, we see a strong uptick driven by commencement of the ATAGS order and the beginning of the CQB carbine production. We should look at a, you know, 30%-40% plus growth in our

defense business next year. Aerospace segment also we see a very strong growth next year, also year after next because next year we have some new programs and some new capacities coming on line, but significantly larger coming on line year after next.

And we believe that we are on track to, you know, really meaningfully grow this business in the next three odd years and make it a business that is sizable and will generate very tidy returns in addition to our top and bottom line. On the M&A side, we're looking at some very interesting opportunities and, we'll take it as it comes.

In terms of capacity addition, we have new orders that we've won which are very long term in very strategic sectors and we're setting up some new facilities to take care of that. So I think on the whole, that's the picture where it stands. So I think we're now ready to take your questions, so thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question comes from the line of Gunjan with Bank of America. Please go ahead.

Gunjan: Yes, hi. Thanks for taking my question. My first question is on the defense business. You know, there have been quite wide-ranging wins in the last quarter, right? Small guns, the carbine, then unmanned systems or drones, and then even the marine one came through in the last couple of months?

So it clearly the product capabilities is far wider than the guns and the portfolio is expanding, right? So I'm just looking to get some sense from you as to how do we think about the scale-up of this business in the next two, three years?

Yes, of course, there's one way that we look at order book and execution of order book, but it does seem like some of the newer opportunities are adding in. So some thoughts on how do we think about this business from a two, three year perspective?

Amit Kalyani: Yes, sure Gunjan. I think you have to look at our defense business the way you look at our overall company. We will de-risk defense from any one vertical. We will have multiple verticals. We will have verticals that will have continuous business. We'll have verticals that will have lumpy business. And we will look at global opportunities for all the products that we make.

It's very clear that unmanned systems and drones are a very big opportunity. These are definitely both complementary and supplementary to manned systems. So we have to have a play there and we are there both in the water domain that is underwater and in aerial domain. And we are building the capability not just for the product, but also for the payload. So that is one way to look at it.

And these are products that can be ranging from few crore rupees to many, many million dollars. So there's a wide range of products within that also. So we believe that once you become a defense player and especially in a network-centric battle environment or defense environment, you need to have all the network products that become a force multiplier for any of your products.

Gunjan: Got it. If I were to like just sort of think that defense is about roughly about 10-12% or even less than 10% order of your revenues right now. With these new opportunities, order book conversion, I mean, just directionally, how do you think this, how significant can this be? I'm just trying to get the scale of this business maybe three years down the line, maybe five years down the line, the way you internally sort of look at the evolution of this?

Amit Kalyani: See realistically, defense has the opportunity to become as big as our business today is, overall business is today, if we look at global opportunities. You know, if we look at the budget of Europe, European defense budget is going from EUR 350 billion to 800 billion. India's defense budget is growing by 21% this year.

So overall, there is a huge growth taking place in these sectors. So it depends on what we play in, what role we play and what we win. But clearly, 10%, 11% will definitely be more like closer to 18-20% if things go right, could be even more than that.

Gunjan: Got it, 18%-20% in two to three years. Is that how I should take it?

Amit Kalyani: I think let's look at 20%, 30%.

Gunjan: Okay. Got it. Second question is on this tariff, clearly you guys navigated it really well with pretty modest hits. I'm just trying to get a color on what does the deal do beyond the easing of margin pressures? Is there fundamentally something you see has shifted and which can put us in a better place as a supplier ecosystem from India, some qualitative thoughts around that?

Amit Kalyani: Yes, so look, obviously, it puts us in a better position than certain other countries which have a higher tariff than us. So that's one thing. Okay. Second is, the tariff deal being done and the punitive 25% being removed means that, we're in a differentiated position than others plus the new product development will start again with all our customers, not that it had stopped, but there is more confidence now to go full steam ahead.

Gunjan: Got it. And last question just on Europe restructuring. Again, trying to get your thoughts on, you mentioned that you'll give an update by the end of the year, but any color on how, what is it that we are looking to do? Is it looking to wind down the business? Is it looking to shift it to India? I mean, what sort of restructuring...

Amit Kalyani: I can't say anything more than what we've already said. But you know, like I said, we have to make a profit or, we have to take some decision. So we have to see what to do.

Gunjan: Okay. All right. I'll join back the queue. Thank you so much.

Moderator: Thank you. Next question comes from the line of Aryn Pirani with JP Morgan. Please go ahead.

Aryn Pirani: Yes, hi. Thanks for the opportunity. Actually, my first question was on the announcement of the Premji investment in JS Auto. So my question was that, given that you are, probably the experts on the manufacturing business that it is, and given that, balance sheet is not really a constraint for you, what is the value that this investor is bringing in and how does this change the scale of operations which maybe you couldn't have done on your own?

- Amit Kalyani:** No, there's nothing that we couldn't have done on our own. I just think that sometimes having, a few more, let's say a slightly different perspective is always good and having more, what do you call it, bandwidth to think about things and they also have a lot of connect globally. Plus, we want this business to grow fast. We want it to grow both organically and inorganically. And now we don't have to worry about putting any more money into it.
- Amyr Pirani:** Okay. Understood. Fair enough. Secondly, just following up on the Europe question. So interestingly in the last two, three quarters it looks like the numbers have already started to move up. So just trying to understand if are there already some things that you are doing in the business or we still have to think about, a kind of big restructuring which you had indicated like, few quarters back.
- Amit Kalyani:** So look, we're trying to do a lot of things. We're reducing a lot of cost, but it's not easy. It's every day there's something new happening in Europe. So we're trying to do the best we can. We are putting a lot of improvement measures, etcetera. We just have to see how effective they are. Whether one is internal, the second is external.
- We also need to see whether whatever we are doing, the external landscape and the market is big enough and is there to take advantage of. So it's not just one way. Europe, I think, is in a secular problem and we don't know where it's heading. So we have to see.
- Amyr Pirani:** Okay. Fair enough. Thank you for this and I'll come back in the queue.
- Moderator:** Thank you. Next question comes from the line of Kapil Singh with Nomura. Please go ahead.
- Kapil Singh:** Yes, good afternoon, sir. So I wanted to check firstly your thoughts on the defense business profitability. Would it be comparable to the auto business over time? How should we think about that?
- Amit Kalyani:** Yes, I would expect it to be, profitable equivalent on an EBITDA basis generally speaking. And you know, I think the ROCE should be better because we don't have the same amount of capital employed. Also it will have a long tail because there will be constant MRO and support income coming from everything that you sell.
- Kapil Singh:** Okay. And sir, this order book that we have, what period should we look at for the execution? Also we had a small arms contract order for carbine...
- Amit Kalyani:** I think the small arms is five years, the rest would be between mostly four years.
- Kapil Singh:** Okay, okay. And sir, also on the outlook for particularly the global truck business, has it already bottomed out as you mentioned, but when do we start to see the upcycle? Are there any signs visible? What is the outlook for next 1 year? Not just asking for 1 quarter?
- Amit Kalyani:** Yes, I'll let my colleague Subodh answer that question.
- Subodh Tandale:** Well, you've seen the incoming orders in the US for class 7, 8 in the last 2 months, they've been on the upside. And generally, there's a sense of confidence just given that all the uncertainties of the last year, the things would be better. So we are hoping that things would be better than last

year and hopefully things would be stable as well and growing. So that's what we are planning for. It's not going to be steady -- it's going to be steady, but on the positive side is what we expect.

Kapil Singh: Okay. And sir, can you comment on the passenger vehicle exports as well?

Amit Kalyani: So we continue growing our passenger car exports. Again, we are engaged with all the major players in the world. And Yes, I mean, we have lot of opportunities on the table. So all of them are being addressed.

Kapil Singh: Okay. Thank you. Thanks a lot.

Moderator: Thank you. Next question comes from the line of Abhishek Shah with Valcore Capital. Please go ahead.

Abhishek Shah: Hi sir, thank you for taking the question...

Moderator: Mr. Shah, sorry for interrupting, your voice is breaking. Can you come in the range and talk?

Abhishek Shah: Yes, hi. Is it better now? Hello?

Moderator: Yes, please go ahead.

Abhishek Shah: Yes. So sir, I -- this is regarding a news article and somewhere we've been reading online that Kalyani Group as such has been, granted by Odisha Government, we are planning to set up a project of INR17,000-odd crores. Just wanted some more clarity on this. I mean, the project, what our understanding was, it will be implemented by three companies of our group, Bharat Forge, Kalyani Steel and Saarloha.

So maybe if you can give us some more understanding on, you know, what will be the split, who's spending how much and what is this project about and maybe tentative timelines for the same?

Amit Kalyani: So the first part of the project will be a specialty steel plant, which will be set up by Kalyani Steel. That will be coming up in -- I mean, once the EC and everything happens, they will break ground and start work. That will be about 700,000 tons of steel, specialty steel. Then the second part will be a super alloy plant which will be set up by Saarloha to make aerospace and other super alloy grades, including tool and die steel etc.

And the third will be a forging, machining, potentially also casting facility by the relevant companies, including JSA if needed, if there is an opportunity to do a further expansion of our own existing products and certain new products using the raw material and the overall advantage that we'll get in that location.

Abhishek Shah: So what will be the tentative capex split between the three?

Amit Kalyani: See, each company will do its own capex, I don't want to it in a Bharat Forge call talk about other companies.

- Abhishek Shah:** No, no, in the sense out of 17,000, how much are we going to spend? How much is Bharat Forge going to spend, sir?
- Amit Kalyani:** So Bharat Forge, we have said up to INR3,000 crores.
- Abhishek Shah:** Okay. Got it. And sir, tentative timelines for when we start our capex, I mean, I'm talking from Bharat Forge's perspective and how does it link to the group basically?
- Amit Kalyani:** This will be the next growth phase after our existing expansions in Baramati, etc., over.
- Abhishek Shah:** So nothing in the immediate 1 or 2 years as such...
- Amit Kalyani:** Not in the next 1 year.
- Abhishek Shah:** Okay. Got it. Okay, sir. That's all from my side. Thank you.
- Moderator:** Thank you. Next question comes from the line of Nitin Jain with Fairvalue Equity Advisory. Please go ahead.
- Nitin Jain:** Yes, congratulations on the excellent quarter. I have just two questions. If you can talk a little bit about your defense order pipeline. Now I'm asking this because Q-on-Q itself our order book has grown more than INR1,500 crores. So where do we expect to end this year and what kind of bid pipeline we have for fiscal '27?
- Amit Kalyani:** So we have increased our order book by two things. One is the CQB Carbine and some of the EP orders that we got. Okay. Now we have a lot of other things that are in the pipeline. There are lot of new programs that we're working on, lot of new products that we're developing. I don't want to talk about any of that right now. Once we place -- once we make the bids, we can talk about them.
- Nitin Jain:** Right. So do we expect any of these to materialize by fiscal '27 or they're still time to go?
- Amit Kalyani:** See, as you know, the whole defense procurement process is being overhauled and being speeded up. The new DAP has come out which is very, comforting that it is focusing more on Indian development and design products and Make in India a lot more. So I think we are quite bullish on this whole sector growing for India.
- There's also a global opportunity to be a supplier both of systems and components into Europe and many other parts of the world. So overall, I think this is a market that's going to grow, this is a sector that's going to grow, and a business that's going to have a long-term strong future for us.
- Nitin Jain:** Also recently one of the Indian forging companies, they were inducted into the NATO supply chain for high precision defense components. So, like, this is considered positive for their business. I just wanted to know if we also share any similar credentials or we are vying for the same?

- Amit Kalyani:** First of all, I would say please validate what you're saying because -- okay. And second, we already are supplying into -- we're already exporting into large quantities in this area.
- Nitin Jain:** Great. And lastly, any development on the server business? Last we had heard from the company was that it tied up with a few global leaders. If you can make us aware of any product?
- Amit Kalyani:** Its still in the development phase.
- Nitin Jain:** Okay. Thank you.
- Amit Kalyani:** Thanks.
- Moderator:** Thank you. Next question comes from the line of Aakash Javeri with Time & Tide Advisors. Please go ahead.
- Aakash Javeri:** Good afternoon, sir, and thank you for the opportunity. My first question is how has the acquisition of American Axle been performing and what is our view on this segment?
- Amit Kalyani:** The acquisition has performed well. Our margins have grown by almost 200 basis points. And I expect that this sector will do well. This is a high growth sector and we're already winning quite a lot of new business from Indian OEMs. So this has been a good acquisition for us and we expect this to turn out to be a very positive step for the company.
- Aakash Javeri:** Sure. And the group also has taken Automotive Axles. So how are we looking at these two companies in similar segments?
- Amit Kalyani:** So I'm not personally involved with Automotive Axles individually because of the same reasons. As you know, Automotive Axles is a investment of the Group for a very long time. It has its own position in the heavy axle sector. And this is another player in the axle sector. So I think each will find its own niche and where needed they will also compete.
- Aakash Javeri:** Sure. And my last question is, has American Axle been gaining market share?
- Amit Kalyani:** Has been what?
- Management:** Gaining market share.
- Amit Kalyani:** Yes.
- Aakash Javeri:** Has been gaining market share?
- Amit Kalyani:** Yes, it's been getting a lot of new business. Yes.
- Aakash Javeri:** Okay. And any way to quantify that?
- Amit Kalyani:** I think next quarter we'll talk about that.
- Aakash Javeri:** Sure. Thank you so much.



Moderator: Thank you. Ladies and gentlemen, as there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Amit Kalyani for closing comments.

Amit Kalyani: So, ladies and gentlemen, thank you very much for your time and interest and your questions. You know, as always, it's a pleasure interacting with you. Thank you for your positive comments and feedback. And we look forward to remaining engaged as we continue the growth journey of our company over the next many years. Thank you. Bye, bye.

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