“Bharat Forge Limited

Q2 & H1 FY27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY27 Earnings Conference Call hosted by Bharat Forge Limited. 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 and zero on your touchtone phone. 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, sir.

Amit Kalyani: Good afternoon, ladies and gentlemen and thank you for joining our Q2 and Half-yearly Analyst call. I have with me our teams from operations, BD and sales, finance and investor relations. I have my fellow board members, Subodh Tandale. I have our CFO, Kedar Dixit, our head of investor relations, Raj and Chinmay his colleague and Sameer from Finance. I will have them take you through a summary of our business and then we will open it up for Q&A.

Kedar Dixit: Good afternoon, ladies and gentlemen. First of all, wish everyone a Happy and prosperous Diwali. Taking about the highlights for the quarter and 6 months, happy to note that this was the highest, we had achieved highest sales across export and domestic on a quarterly basis. On a Q2 FY27 standalone revenues were at INR2,526 crores, which was up by almost 30% Y-o-Y.

EBITDA stood at INR655 crores, up 20% Y-o-Y, resulting in EBITDA margin of 25.9%. The profitability bore the impact of escalating freight, energy cost and other input cost, which we are recovering from our customers, but there is always a lag. And also there is an impact due to inflation, which has a optical impact of almost 0.4% on the margins, which is more of a optical rather than actual.

Q2 standalone also included an exceptional item of around INR20 crores towards the consultancy charges for our legal and consultancy charges for our restructuring of steel business in Europe, CDP, which is on track as per plan and it will get concluded by mid of next year.

The Y-o-Y performance also saw an all-round improvement in exports, especially on the automotive side. The export CV business recorded its highest revenue driven by volume growth and some market share gains and ramp-up of new businesses. Consolidated revenue for the quarter stood at INR4,870 crores, which was up 21%.

EBITDA was at INR778 crores, which was up by about 9% vis-a-vis last year, translating EBITDA margin of around 16%. Talking about India manufacturing business, our recent acquisitions continue to post strong performance. JS Auto Cast, which is a casting business saw a revenue growth of 16% to reach INR220 crores and EBITDA grew by 35% translating into EBITDA margins of 14.2%.

This has been JSA's highest quarterly revenue and EBITDA till date. The K-Drive business also continues to do well. The console balance sheet remains strong with net debt-to-equity ratio at 0.45x. Console cash stands at around INR4,158 crores post QIP fundraise. We have also received new orders worth INR2,100 crores during first half of this year across our India manufacturing businesses.

Forgings receives a order worth of INR1,000 crores in that. The outstanding unexecuted order book for defense stands now at INR10,950 crores as of September. Talking about the overseas business, despite lower utilization due to holidays and difficult operating environment in Europe, the overseas business managed overall positive EBITDA.

Europe saw revenue of INR931 crores and EBITDA of INR29 crores resulting in a margin of around 3.1%. US revenues were at INR476 crores an EBITDA was about INR6.7 crores negative for the quarter. Our restructuring business for CDP is on track and as I mentioned we will estimate to close, conclude the same by middle of next year. I will hand over to Amit sir.

Amit Kalyani: So, ladies and gentlemen, I will start first with talking about some of our subsidiaries. If you look at JSA and K-Drive, together, we are now at a place where our revenues are well in excess of between the both of them should be in the excess of INR2,200 crores, INR2,300 crores for the year.

When we bought, that is about a run rate of about close to INR600 crores a year, a quarter, sorry. When we bought JSA, it had a total business of about INR400 crores, which is about INR100 crores and K-Drive was about INR1,220 crores, INR1,230 crores. That was about INR300 odd crores quarterly. So, we have grown from about INR400 odd crores to about INR600 odd crores on a quarterly basis, which is a 50% growth in the period that we bought these two companies.

And we expect that this will again continue growing to close to double of this amount and as well as get higher margins. So the business that we have acquired through these castings and K-Drive will not only allow us to grow our revenues and our profitability, but also get us into sectors such as the pass car and the utility vehicle and pickup truck market that we were not existing in in a big way.

And that will increase our share of revenue in this sector very substantially going forward. And as India grows, the automotive market is growing more on the SUV and pickup SUV and multi-utility vehicle etcetera rather than the small car. So, that is a very good sign for our business.

On the defense side, you know, we have received the bulk production clearance for ATAGS. This has been delayed, but it's finally been done. You know, we had increase in cost because of anticipation of this happening and getting prepared for this, plus some R&D expenditure for some of the new products that we are developing.

We anticipate a very strong accretion to our order book in the second half based on whatever, you know, business and let's say programs that we have won and that needs to get converted into contracts and placed on us. In terms of our aerospace business, we have won new business, both on the engine side and the landing gear side.

A very significant new business, double-digit multi -- double-digit million dollar per year over a long period of time. So, that is like a USD100 plus million business over life cycle, 100 million, 120 million. So, these are the kind of now new big businesses that we are getting and with our new facilities which we are investing in and coming up in Baramati, which is four forging facilities and a large machining facility.

This will allow us to more than double our output in Baramati over the next 2 to 3 years, starting from the first quarter of next year and, you know, grow business in a very profitable manner because it will be a Brownfield expansion at that location. That expansion currently is about INR1,300 odd crores across forging and machining and this will start, it is already now in implementation phase.

Production trials should start by, you know, January, February, March for the first two assets and then towards the middle of the year for the third asset and end of the year for the last asset. So, that is the kind of outlook we see. We are adding about 100,000 tons of forging capacity and a large machining capacity in Baramati.

In terms of outlook, I would expect second half to be stronger than first half. We have -- we expect to see a recovery of our price increases and cost increases from our customers and also ramp up of some of the new business that we have won in the semiconductor space, which is also very substantial.

Again, large double-digit million dollar business per year over a long period of time. And in this particular business, we will not only be increasing the value, but we will also be adding to and doing full machining of our products. So we will be tripling our business over the next 2 years and with the new capacities that we are setting up.

And then additionally once -- once our machining comes online, that will again add significant value add to that. So, you know, this all leads to higher value realization, higher value add and complex and, you know, interesting products that then give you a base to ramp up these businesses as well.

Once the new forging facilities in Baramati come online, it should give us a lot of headroom for growth in our non-automotive business, especially aerospace, semiconductor, industrials, because, we have been running very close to full for the last few quarters.

So, with a strong balance sheet, lots of new orders, now execution will deliver stronger return in the next 6 months and going forward. So, I think that's all really I want to say and wish you all a very happy Diwali to you and your family members and we will be happy to answer your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of the Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh: Hi team, thanks for the opportunity. Just to clarify the aerospace order that we talked about, is this the Pratt & Whitney contract that we got for mission critical engine components?

Amit Kalyani: I am not naming the customer, but we have received significant new business from multiple suppliers -- multiple customers, sorry. Multiple products and multiple customers. In fact, we are setting up a new manufacturing facility that is entirely dedicated towards aerospace and it's pretty much 60% sold out and that will start from middle of next year.

Binay Singh: Okay. And similarly on the semi side, like in this one you talked about USD100 million annual opportunity. What kind of opportunity do you see initially on the semi side?

Amit Kalyani: See, we are already now at a run rate of double-digit USD million per year. Now we have to grow that 2-3x. We are setting up a new forging facility to do that. And that facility will do aerospace, it will do semicon and it will do industrial also. All high value large parts that we weren't doing, rather you know, we are doing but not doing in a scale that we wanted to.

Now that we have enough orders, we need facilities that can be semi-dedicated for doing these and do this very efficiently and at scale. So that investment itself should be able to cater to these 2-3 sectors at least for the next 2-3 years.

Binay Singh: And just, you know, like in your press release you added that the ATAGS revenue recognition will start from next year, which means that this 20%-25% revenue guidance. So sequentially when you look at second half, what is the driver of this jump in revenues that we will see to meet this 20%-25% guidance?

Amit Kalyani: So, it's across the board. It is our aerospace business, it is our industrial exports, it is some of the semicon business, it is the CV business, it is our pass car exports, all of these, marine and then JSA and K-Drive, all of it. We have lots of new programs and projects which are moving into revenue.

Binay Singh: Right, right. Great team, I'll come back in the queue.

Moderator: Thank you. Next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Yes, hi, good afternoon, sir, and wishing you and the team a very happy Diwali as well.

Amit Kalyani: Thank you, Kapil.

Kapil Singh: Sir, firstly on K-Drive mobility, we saw a very strong growth this quarter and also margins have seen some improvement. So, just if you could talk about what are the drivers here and in the medium term, what kind of profitability can this business achieve? What is the potential here?

Amit Kalyani: Yes. So look, our goal is to take this towards double-digit in the next 2 years, EBITDA, okay, and keep growing our revenues by at least 20% a year, if not 25%, by getting into the pass car sector, which means SUVs, pickup trucks and utility vehicles and also working on hybrid and electric solutions for our customers.

Kapil Singh: Okay.

Amit Kalyani: So that's the two prong strategy.

Kapil Singh: And this will have relevance for exports as well?

Amit Kalyani: Yes, it will have. For certain sectors, we obviously have a non-compete with our, the company we bought from, but there are plenty of sectors that they didn't play in. We are also now

supplying into off-highway and that is the area where we have open game, we can export and play in that market anywhere in the world.

Kapil Singh: Sure, sir. And sir, the second question was just on the truck operations, both for India and particularly US Class 8, we saw some weakness in the orders recently. So, what is the outlook over there? If you could just update on both India and US?

Amit Kalyani: I will request my colleague Subodh to answer this question.

Subodh Tandale: Yes, hi. So, you are obviously referring to the latest announcement of the sales in October.

Kapil Singh: Yes, class order inflow.

Subodh Tandale: Yes, order inflow, yes. So you know, the order inflow has varied quite substantially through the year, but particularly for the last 7-8 months, the level of production has been constant at a reasonably high level. And the indication that we have from all our customers is that production level will in fact continue to be very stable and in fact be a little stronger than what it is today.

So, from our point of view, right now, all our customers are talking to us for actually blocking capacity for the next, I would say, 18 to 20 months in a row and that's at high level. So, we are expecting a reasonably strong outlook based on what we hear today.

Kapil Singh: Sure, sir. And for India?

Subodh Tandale: Same.

Kapil Singh: Okay. Thank you so much. Thanks. And that's it from me.

Moderator: Thank you. Next question is from the line of Chandramouli Muthiah from Goldman Sachs Please go ahead.

Chandramouli Muthiah: Hi, good evening and thank you for taking my questions. First question is just around profitability and the outlook going forward. So, we have seen first half top-line growth closer to 20%, but gross profit and EBITDA absolute growth is slightly lower because of all of these understandable factors around inflation and raw materials and you've had pre-operating costs on some of your plants, on off costs and so on.

So, as we move to the back half, just wanted to understand if you could help us understand the drivers of how possibly EBITDA growth and gross profit growth can converge maybe closer to the good revenue growth that we're doing as a company?

Amit Kalyani: Yes. So I think for the second half, if you take away the inflationary impact of the top line, which could be 2%-3%, without that the EBITDA numbers will be or EBITDA growth will be in sync with top line, maybe even a little better than that.

Chandramouli Muthiah: Got it. Makes sense. Second question is just around trying to understand the steel pass-through agreements a little bit better on the India manufacturing business. I understand we manufacture

in India and export to a lot of our customers. So, just on the metal cost that you incur there, is this metal mostly purchased in India at Indian safeguard duty inflated rates and your…

Amit Kalyani: You're talking about metal that's produced, I mean, the components that are manufactured in India or those which are manufactured abroad?

Chandramouli Muthiah: Manufactured in India and exported abroad.

Amit Kalyani: Whatever is manufactured in India is bought in India, the steel. Okay? And that follows global price trends.

Chandramouli Muthiah: Got it. So, the safeguard duty that's typically I think local automotive companies are paying on the steel that they buy in India, that's not something which your customers have to pay you for because those are contracted at global rates.

Amit Kalyani: No, those are local, I mean, those are Indian cost. They aren't global costs.

Chandramouli Muthiah: Got it. Makes sense. And last question is just around you've indicated in the presentation and the comments that over the next 12 to 18 months, you should be able to start production on some of the non-automotive businesses that you're investing towards. So, just wanted to understand if there are any early customer commitments or nature of components that you want to sort of share on this growth aspect of the business?

Management: So, I don't want to share what we are doing, but let's just say, there are unique high value and highly value-added components for a variety of industries from aerospace, landing gears, structural components, semicon, industrial, even aerospace, even the space side of things. So, in a variety of different sectors and a variety of materials from, you know, high temperature alloys to, you know, titanium to aluminum. So, a variety of different materials and products and customers.

Chandramouli Muthiah: Got it. That's helpful. Thank you very much and all the best.

Management: Thanks.

Moderator: Thank you. Next question is from the line of Gunjan Prithyani from Bank of America. Please go ahead.

Gunjan Prithyani: Yes. Hi. Thanks for taking my questions. Just two follow-ups. One on the defence revenues. Now with the with the deferment of the ATAGS order to next year, could you give us some sense on is there any new order that sort of converts into revenue in second half of fiscal '27? So, just some idea.

Amit Kalyani: I just want to correct you, there is no deferment of the order.

Gunjan Prithyani: I mean, I meant revenue recognition.

Amit Kalyani: The order has not been deferred, the production approval didn't get deferred, it got delayed. So, we were waiting for the production approval, which has now come through and that should start shipment from Q1 of '27, '28.

Gunjan Prithyani: Perfect. No, that's what I meant. I think from the revenue accrual perspective, if there is anything that, you know, how should we think about revenues for fiscal '27?

Amit Kalyani: Some business that we had won during the last 6 months to 12 months, including some EP contracts, which should all, you know, materialize in the second half, which will give us a boost on our top line and bottom line for the second half of the year for defence.

Gunjan Prithyani: Got it. And there were these two contracts which were large size. One was ATAGS and the other was the CQB, the small gun contract which was there. Could you give us now the timelines like how long ATAGS takes to convert into revenues when it starts from Q1 of '28?

Amit Kalyani: It's converting into revenue from quarter 1 of '28.

Gunjan Prithyani: And how many quarters is the delivery?

Amit Kalyani: It depends on we have to supply 184 guns. So, you know, in the first year it will be a ramp up, second year will be more steady, third year will be steady. So, in 4 years, I think we should be able to deliver this.

Gunjan Prithyani: Got it. And same is with the CQB contract also that it starts next year and…

Amit Kalyani: CQB, we have not got the bulk production clearance yet. Okay. Once that happens, in 4 months to 6 months, we should be able to start delivery.

Gunjan Prithyani: Got it. And my second question is…

Amit Kalyani: Please remember that these, we have a ability to build, I would say at least one gun. I would say at least one gun, you know, I would say 120 guns to 150 guns a year. Now it depends on for the big artillery guns. Now that is across a variety of platforms, both mounted guns, wheeled guns, towed guns, etcetera. But it depends on the uptake rate that the customer has. How many, you know, battalions, where they want to place them, the training and induction schedule. We are flexible and we are ready and available to deliver.

Gunjan Prithyani: Got it. And on the overseas subsidiaries, I mean, there is a restructuring that you did talk about on the European operations, but there also seems to be, you know, inferior profitability on the US subs. How do we look, you know, look at the more sustainable profitability on US operations and what is really depressing the margins in that business?

Amit Kalyani: You know, we had a, let's say, we had some one-times in the US steel subsidiary because of breakdowns. On the aluminum side, you know, we have a cost issue because of the raw material costs. Let's see, you know, our goal is that in the next 3 to 4 months by December, we should have a solution in place for the steel subsidiary. And on the aluminum subsidiary, we are developing a lot of new products for non-automotive. So, as those start coming online, it should

give us a, you know, boost say in the next 6 months to 12 months to our profitability and, you know, take us above break-even.

Gunjan Prithyani: Got it. And just last question if I could squeeze in on the India manufacturing. I mean, your guidance is amply clear 12% on India manufacturing. And from a margin perspective, there are many things which are happening. You have mix changes, you have commodity impact. How do we look at the sustainable margin or a steady state margin for India manufacturing given there is so many things which are you know, get getting added to this entire piece on aerospace, on defence. Is there a number that you know, would help us?

Amit Kalyani: Depending -- it's a very good question, Gunjan. Depending on the mix and you know, where we are in the mix at that point in time, I would say our India manufacturing, which is today running at somewhere in the region of close to INR3,000 crores -- INR3,400 crores per quarter, you know, and a 22% margin, I would expect this to, you know, be well in excess of INR5,000 crores of sales by the time we come to the end of next year. And I would say an accretion in margin of at least 200 basis points to 250 basis points.

Gunjan Prithyani: Got it. That's really helpful. Thank you so much. I'll join back the queue.

Amit Kalyani: Thank you.

Moderator: Thank you. Next question is from the line of Amyn Pirani from JP Morgan. Please go ahead.

Amyn Pirani: Yes. Hi. Thanks for the opportunity. Just some clarifications on the defense business. So, as you ramp up on the ATAGS production next year, how should we think about the margin profile of this defense entity vis-à-vis, you know, what the margins we can see right now? Is it going to change materially? Is it going to be similar? Any broad indication?

Amit Kalyani: You know, I would say that the defense business margins will vary between 20% to 24%, 25% depending on the product mix that we are supplying. So, initially…

Amyn Pirani: Okay.

Amit Kalyani: It may be in the 20%, 21% range, but as we start making more sophisticated products and as we start doing the fully filled ammunition, that should increase even further. Okay?

Amyn Pirani: Okay.

Amit Kalyani: So, we'll have one set of margins till we have the certain product profile and as we have more value-added products and fully filled ammunition, the margin profile will increase by at least 200, 300 basis points, maybe even more.

Amyn Pirani: Okay. And ATAGS is on the -- on this value addition kind of product mix…

Amit Kalyani: Yes. It is…

Amyn Pirani: Or it's more like a…

Amit Kalyani: No. It's a good 20%, 22% margin product with…

Amyn Pirani: Okay.

Amit Kalyani: But, you know, it's also got a very high asset turnover.

Amyn Pirani: Understood. And just some clarification on the order book. So, the defense order book that you have reported, you know, as of the end of last quarter, does this…

Amit Kalyani: It's about INR10,600 crores?

Amyn Pirani: INR10,000 crores? So, what does it -- does it include the ATAGS and the CQB orders or like what does it have?

Amit Kalyani: Yes. It has everything that is in defense.

Amyn Pirani: Okay. So, everything which has not started, which is ATAGS, CQB and other things, everything is part of the order book?

Amit Kalyani: Yes, absolutely.

Amyn Pirani: Okay. Thank you. I'll come back in queue.

Moderator: Thank you. Next question is from the line of [Kamlesh 00:28:25], an Individual Investor. Please go ahead.

Management: Yes. Go ahead, please.

Moderator: Kamlesh, please go ahead with your question. Your line is unmuted. Kamlesh, may we request you to please unmute yourself and proceed ahead with your question? As there is no response from the participant, we'll move to the next question, which is from the line of Arvind Sharma from Citigroup. Please go ahead.

Arvind Sharma: Yes. Hi. Good afternoon, sir. Thank you for taking my question. Sir, on the ATAGS order, if -- is it possible to share that how much of the revenue will be captured by KSSL and how much would be the standalone business?

Amit Kalyani: See, the order was taken at a time when KSSL didn't exist, okay? So, the order is taken by Bharat Forge. We will novate the order later, but right now the deliveries will happen through Bharat Forge.

Arvind Sharma: Got it, sir. So, the entire thing would come into the standalone business as of now?

Management: Yes.

Arvind Sharma: Sir, is it possible to share any sort of a revenue run rate over the 4 years that you talked about?

Amit Kalyani: Yes. We have got 184 guns. So, you know, it will happen over 4 years. It will probably be, you know, 10%, then, you know, 15%, 20%, similar amount, and then whatever is left.

Arvind Sharma: Got it, sir. Thank you so much for taking my question. That's all from me.

Amit Kalyani: Because as I mentioned, please remember, it depends on the absorption rate of the customer because they have to train all their battalions on these new guns and then they have to decide where to deploy them.

Arvind Sharma: Got it, sir. Thank you so much.

Management: Induction of a major new platform is a serious process. Yes, thanks.

Arvind Sharma: Thank you, sir.

Moderator: Thank you.

Amit Kalyani: All right. Since, we don't seem to be having any questions, thank you very much for your time and interest. Our team is available for any clarification or further questions that you may have. Again, wish you all a very happy, healthy, safe Diwali. And we'll be in touch. Thank you so much. Bye-bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Bharat Forge Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.