# BHARAT FORGE

November 20, 2021

To,

**BSE Limited,**
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Fort,
Mumbai - 400 001
**BSE SCRIP CODE – 500493**

**National Stock Exchange of India Ltd.,**
'Exchange Plaza',
Bandra-Kurla Complex, Bandra (East)
Mumbai- 400 051
Symbol: **BHARATFORG**
Series: **EQ**

Dear Sir,

**Sub: Transcript of Earnings Conference Call**

We are enclosing herewith transcript of conference call with analysts, which took place on November 12, 2021, after announcement of Unaudited Financial Results for quarter and half year ended September 30, 2021.

The said transcript will also be uploaded on website of the Company.

Please take note of the same.

Thanking you,

Yours faithfully,
**For Bharat Forge Limited**

**Tejaswini Chaudhari**
**Company Secretary**

BHARAT FORGE LTD. PUNE 411 036 MUNDHWA

Encl: As Above

KALYANI

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# "Bharat Forge Limited Q2 FY22 Earnings Conference Call"

**November 12, 2021**

**MANAGEMENT: MR. AMIT KALYANI – DEPUTY MANAGING DIRECTOR**

**Moderator:** Ladies and gentlemen, Good day and welcome to Bharat Forge Limited Q2 FY22 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Kalyani. Thank you and over to you, Sir.

**Amit Kalyani**: Good afternoon ladies and gentlemen and thank you for joining us at our half yearly analyst call. This is Amit Kalyani and I have with me our finance, sales investor relations and operations team. I take you through some quick highlights and then I will open up for Q&A. Highlight for Quarter 2 was our revenue was little over 1,600 crore or Rs. 16 billion which is almost double of last year same quarter and significantly higher by 17% by the previous quarter. In terms of EBITDA our EBITDA margin at 28.3% and total EBITDA of 455 crores was significantly higher again by about 18% than the last quarter and much higher than the last year. Profit after tax at 311 crores also was about 86% higher in the previous quarter. In terms of our overseas subsidiary we have a half year revenue of 1,663 crores and an EBITDA of 11.3% which is basically a result of the intense cost optimization and product mix improvement and operational improvement that we have made.

If you look at our standalone business the demand was robust in Q2 across sectors and geographies. Domestic revenues grew by 40% while exports grew by 4.4%. Other operating income includes 110 million of RoDTEP benefit which is approved from Jan 1 21 to June 30$^{th}$ 21. Despite the continuing import and logistic cost pressure EBITDA margins came in at a healthy 28.3% which was similar to similar quarter. We have seen a some improvement in our return ratios due to the improvement in capacity utilizations. Our ROC today stands at about 17.8% and RONW about 14.8%. In terms of cash flow, we have invested 234 crores in payment of CAPEX in H1 of 22 and 270 crores in our subsidiaries which include Sanghvi Forge acquisition the North American aluminum plant and Kalyani power train limited.

I am happy to report that Sanghvi acquisition has been PBT positive in the first quarter after our acquisition. In terms of end market our domestic markets continue to do well across both PV and commercial vehicles export market and demand consumer demand it is very robust including the lead time and wait time for delivery of vehicles. Unfortunately, there is an issue with production and delivery due to the chip shortage and other logistic related issues which is disturbing or impeding the ability of OEMs to build vehicles at the rate at which they need to. So, we expect that as the chip shortage eases out this pent-up demand to result in higher production. Industrial segment continues to do well across all segments and geographies one new product development by Bharat Forging a very short time was the aluminum forge cylinders for medical bed oxygen.

Here we have had an order of about a 1,000 cylinders which will be completed between Q2 and Q3 and we are now looking at creating a long-term business opportunity for this. Our center for light weighting and e-mobility starting to gain traction with order wins from both automotive and industrial customers. We expect this to see increased I mean see the results of this from FY23 onwards. On the e-mobility front we are continuing developing our product and technology strategy and localization and with some near launch events coming up on the horizon with customers for their new products and launches.

In terms of outlook we expect the standalone business to continue witnessing growth on the domestic front and the export industrial front while the export automotive business will be under some pressure because this will be the quarter where the chip shortage is going to have the most impact. The overseas subsidiaries we expect to end the entire year with a double digit EBITDA margins in spite of the adverse impact of the chip shortage which will be visible in the second half numbers which will be slightly lower than first half, but still will be a double digit EBITDA for the whole year which in terms of overall let us say market related scenario is a pretty good performance and will continue to grow and become even stronger as our aluminum business grows and ramps up in US and Europe. Europe our capacity is already setup and plant is running it is only a matter of program ramping up which will start from December, January of this year.

So, I think that is really all I wanted to talk about. Most of the other information is in our update so I thought that we could spent a little more time on Q&A. So, I will be happy to take your questions and try and answer your questions.

**Moderator**: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Please go ahead.

**Kapil Singh**: Firstly I wanted to check on this EV products that we are working on related to e-mobility and also the EV startup if you could talk about what are the products where you think Bharat Forge would be building order book or competencies and how do you see the EV start up investment evolving over the next one or two years?

**Amit Kalyani**: So let us talk about first components in terms of components we have two categories of components we are focusing on. One is light weighting components which are metallurgical product either forged or cast which were supplying to a variety of OEMs across the world and that business is ramping up quite aggressively. Just in terms of forging we have enough capacity today to take our aluminum forging business from approximately currently 70 million to about 250 million with the capacities on hand and order book on hand. Secondly this does not include the casting side that business will also ramp up over the next two to three years and we expect that this will also grow at a double digit pace, but more interestingly and exciting for us is our entire e-mobility components and systems business where we are supplying power electronics, control electronics, components, systems and subsystems for EVs all the way from 48 volt to 800 volt. So, here we have embedded systems-based products like DC-DC controller. AC-DC controllers, inverters, butterfly controllers and all kinds of products. So here we expect revenues to start from next year and ramp up substantially by 23 24 to triple digit million-dollar kind of figure then we have other components which we are now exploring getting into and I think once we have finalized everything we will have a EV communication strategy with the shareholders and analyst, but suffice to say that EV is going to be one of the main growth drivers of our company in the 24 period to 26 period and then beyond and you asked me about startup. So, I believe that there is a great opportunity for startups in the commercial vehicle space that is the last mile delivery space and the person mobility space. The last mile delivery space opportunity is the largest in North America, in Europe and the personal mobility space opportunity is on the two wheeler and three wheeler which is very big in India and I believe that electrification of these two sectors and these two markets or three markets will happen very rapidly and we are fairly well positioned both from a metallurgical products point of view and from electrical products point of view to cater to companies in this sector and we have a roadmap and game plan to do that.

**Kapil Singh**: I also had a follow up on the same when we talk about power electronics for which category of products have we seen traction I mean two wheelers, four wheelers EV there where are we already seeing traction in terms of order book win and we have also talked about this aluminum this aluminum Forge cylinders so what are the potential opportunities from these kind of products which you would target?

**Amit Kalyani**: So our current revenue from the e-mobility, power electronics, control electronics is approximately are companies revenue that are about 12 to 15 million Euros and this will grow over time and we are here supplying high voltage to there is 650 volt to 800 volt applications which are high voltage applications for let us say application which are in the 250 to 350 kilowatt both on highway and off highway, but largely off highway which are industrial use and on the automotive side we have applications from 48 volts to 80 volts which are for two wheeler and three wheeler which we are already supplying. We now have about orders for a 1,000 vehicles to supply this. So, this is in a ramp up phase, but it will definitely grow. On the cylinder side as I mentioned we currently have one order which we are in the process of executing and that will get finished by Q3, but we see an opportunity for a continuing business in this market or in this sector in varied applications globally on a steady state basis. So, we are creating a marketing organization to take care of that.

**Moderator**: Thank you. The next question is from the line of Bhalchandra Shinde from Kotak Life. Please go ahead.

**Bhalchandra Shinde**: Sir about exports we would like to know that as you mentioned on the media also that EV overall industrial prospects are also improving so looking at all the tractions how we see the export growth over next one to two years?

**Amit Kalyani**: Are you saying quarters or year your voice is breaking I am not able to hear you.

**Bhalchandra Shinde**: Next one to two years not a quarter in next one to two years how we see?

**Amit Kalyani**: Next two years we see very strong export prospects and growth and we have long term contracts in place so I think in good position there.

**Bhalchandra Shinde**: Currently our oil and gas is showing a strong traction?

**Amit Kalyani**: Yes oil and gas is strong and getting stronger and I think winter is coming overall because of decarburization the use of gas is going to go up and shale fracking for gas is very competitive option especially for the US. So that is going to be a strong market going forward.

**Bhalchandra Shinde**: In near term because of this chip shortage how we see the impact in near term will it affect our overall export sales or because it is I think only 10% of the total sales PV related sales and most of the other sales is related to CV do we see impacting CV also because of the chip shortage?

**Amit Kalyani**: Both in CV and PV because of the chip shortage in Q3 there will be a shortage impact in Q3. Basically, the demand is getting deferred if you go to US and you want to buy a new car we have to wait 6 to 9 months and same for a truck.

**Bhalchandra Shinde**: So we will see that kind of impact?

**Amit Kalyani**: That is going to be percentage impact it is not drastic.

**Bhalchandra Shinde**: Will industrial able to compensate what decline we will see in CV because of the chip shortages or CV relative subdued at least in near term?

**Amit Kalyani**: I think overall Q3 it remains to be seen because there are lot of factors driving this, but overall we will still have a good performance in Q3, but not as good as it would have been if there was no chip shortage so there will be a dip over Q2 and Q3 but not very large.

**Moderator**: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

**Ashutosh Tiwari**: So you mentioned this forge aluminum cylinders will still be there in third quarter so this quarter we have done 69 crores will it be around similar levels in next quarter as well?

**Amit Kalyani**: A little bit higher.

**Ashutosh Tiwari**: And domestic industrial how are you seeing the trend and where you see good growth over next say one or two years?

**Amit Kalyani**: So we have created a strategy to grow our domestic industrial business quite aggressively. There are number of sectors where we see opportunity and we believe that we can easily double if not more than double grow our domestic industrial business over the next three years or so.

**Ashutosh Tiwari**: So you are talking about which what would be base of this doubling of revenue like this year revenue you are talking about on that base you can double?

**Amit Kalyani**: More than.

**Ashutosh Tiwari**: But this sectors probably that you are probably more bullish up on or you are seeing that?

**Amit Kalyani**: I do not want to talk about that in too much detail because lot of other people get ideas from that so let us just leave it at that and we made an acquisition of a company as you know Sanghvi Forging which has a facility very similar to ours. Each of those facilities can do easily somewhere in the region of 50,000 to 60,000 tons of forgings and that itself is about $100 million of business so $110, $120 so that is the kind of opportunity and that facility is today operating at less than 100 crores in sales so we have growth opportunity.

**Ashutosh Tiwari**: And export industrial what was the revenue from the oil and gas segment in this quarter?

**Amit Kalyani**: About 200 crores.

**Ashutosh Tiwari**: I think major ramp up has come from there only in this quarter?

**Amit Kalyani**: Little bit last quarter was about 170.

**Ashutosh Tiwari**: And lastly in passenger vehicle side in domestic market I think revenue has gone up recently quarter-on-quarter, so is it like new orders or what is driving this growth?

**Amit Kalyani:** There are a lot of business from some of the new entrant and from some of the new products launch by some of the international car companies in India and those products which we have got orders for are very successful and therefore we are getting substantial traction there.

**Moderator:** Thank you. The next question is from the line of Mukesh from Emkay Global. Please go ahead.

**Mukesh:** So, I want to understand how do you see the impact of the US infra bill on the demand class construction equipments segments?

**Amit Kalyani:** No, the point the US has decided to spent 500 plus billion dollars on infrastructure and this is going to go in areas like roads, bridges, water, rain, electricity and basic infrastructure. So, when you have basic infrastructure this kind of infrastructure spending has a tremendous catering impact throughout the whole ecosystem. So, this will boost truck production, this will boost demand for trucks, demand for construction equipment, demand for high horse power engines, for diesel gensets, for compressors, all kinds of equipment even airports are being now looked at from upgradation because a lot of US infrastructure which was build in the 40s and 50s was last upgraded in the 70s and 80s and 40 years is a long time and you can see the impact of the degradation in the US infrastructure every winter when you have storms and power outages. So, I think this is a very good step it will definitely improve the quality of infrastructure and quality of life in the US, but also provides massive boost to the US economy and global supply chains.

**Mukesh:** So how was the price increase impact this quarter on the revenue?

**Amit Kalyani:** Steel impact about 50 crores.

**Mukesh:** And what was the logistic cost increase maybe sequential year-on-year?

**Amit Kalyani:** I am not going to share that.

**Mukesh:** And the USD INR realization this quarter?

**Amit Kalyani:** 74.

**Mukesh:** And sir the last question any update On the ATAGS

**Amit Kalyani:** Our final trials are done now some user introduction trials are going on. I think very soon we should hear something.

**Moderator:** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.

**Jinesh Gandhi:** First couple of clarification one is the RoDTEP benefit indicated was 11 crores 107 million is that right?

**Amit Kalyani:** Yes rupees yes.

**Jinesh Gandhi:** And this was for from 1st Jan till now?

**Amit Kalyani:** January to June.

**Jinesh Gandhi:** And what it would be for the current quarter?

**Amit Kalyani:** 7 crores.

**Jinesh Gandhi:** And secondly with respect to CAPEX so how should we look at CAPEX considering that at console level we have already invested about 506 crore on CAPEX so what should be the full year expectation both on standalone and console basis?

**Amit Kalyani:** See as we have told you will be spending about 75 million on our plant in the US that is funded by equity and some amount of debt. We have no CAPEX in India right now. Our CAPEX in India will be under 100 crores and the only CAPEX that will remain is whatever CAPEX we need to do for in the US. Today in the US we are seeing a lot of demand for our US older forging plant also. So, we are doing some CAPEX there basically to put robotics and automation and some maintenance to clean up some cycle time issues etcetera to make it more productive that will be in the order of may be between 7 million, 8 million over the next year and half that is about it.

**Jinesh Gandhi:** But the first half standalone CAPEX was close to 250 crores so we are seeing incremental 100 crores over and above that?

**Amit Kalyani:** That was payment for previously sanctioned and implemented CAPEX including some movement of our hammer from Pune to Varanasi and so on and so forth.

**Jinesh Gandhi:** And over and above this 100 crores for the remaining period?

**Amit Kalyani:** Yes I think that should be all for the next half.

**Jinesh Gandhi:** And secondly in the passenger vehicle exports we have seen a QoQ decline so was that primarily because of chip shortage impact or there is something else to it?

**Amit Kalyani:** Basically, the chip shortage see what has happened with chip shortage is that as the OEM have fewer chips they have to decide on which vehicles they put them and typically they are putting them on the highest margin vehicle. So, they are putting them on the Cadillac, Escalade and navigators of the world which produce the highest margin for vehicle for the manufacture. So, although a number of vehicle manufacture are going down the profits of some of the OEMs are remaining fairly robust.

**Moderator:** Thank you. The next question is from the line of Amit Mirani from JP Morgan Chase. Please go ahead.

**Amit Mirani**: My first question was on the e-mobility components that you talked about so you said that you also started to supply in the 48 volt to 80 volt which is for two wheeler and three wheeler this is entirely India right?

**Amit Kalyani**: This is currently entirely India.

**Amit Mirani**: And the 48 volts and in that range these components could also be used for hybrid card if I am not wrong and is there an opportunity that you have?

**Amit Kalyani**: Our products is not designed for hybrid cars because we see hybrid as a stepping stone to full electric. We are focusing on full electric solution. Our aluminum forge and car component are going into hybrid and EV, but eventually it will all switch in to EV.

**Amit Mirani**: And you also talk about in domestic passenger vehicle segment you won some new orders, so what kind of components are these engine components or are these some other kind of components that you are doing now?

**Amit Kalyani**: This is a combination of engine, transmission and chassis component in light weighting.

**Moderator**: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

**Sonal Gupta**: Just on the India industrial bid I mean you do on some orders on Kalyani M4 etcetera so have those started kicking in?

**Amit Kalyani**: No the deliveries for that will start in Q3 and actually realistic the delivery will happen in Q4.

**Sonal Gupta**: So, that order will be executed over what period?

**Amit Kalyani**: Between Q4 and Q1 of next year because of the COVID situation in April and May we had delay of about two months.

**Sonal Gupta**: So I mean like even if the cylinder orders get completed in Q3 then we should not see negative or a decline in Q4 on the industrial side?

**Amit Kalyani**: No, I mean that the defense business will start kicking in Q4.

**Sonal Gupta**: I mean like how do you see I mean like the inventory situation which our customers now are they given the supply chain disruptions are there running with a higher inventory or will that also lead to some sort of a destocking risk?

**Amit Kalyani**: No because I do not think there is a significant increase in inventory I would say may be the increase in inventory is to the tune of may be 10 to 15 days in that range I do not think it is more than that and really the demand is very strong at least that is what our customer tell us and what we hear from companies that publish this information and you know today the issue is that logistic change where in the old days we could forecast that between 31 days and 33 days the material from our plant would reach the US today that can vary anywhere between 50 and 75 days. So, we have to also provide some amount of cushion for that, but I think overall we are okay. Our primary focus is to make sure that we do not create any customer stoppages.

**Sonal Gupta**: And just on I mean like by when do we see like this will we start seeing improving on the Sanghvi forge thing from next year onwards?

**Amit Kalyani**: We are already become profitable first quarter itself at a PBT level we have become black and we will see quarter by quarter we will see growth.

**Sonal Gupta**: Any plan do you have longer term to will that will be a subsidiary or that is already included?

**Amit Kalyani**: It is already 100% subsidiary.

**Sonal Gupta**: I am just asking because in terms of the standalone numbers will it get included in the standalone number that is what we are trying to understand?

**Amit Kalyani**: It comes in our subsidiary and solely on subsidiary, but it is a small number right now. In the first goal there was to fix that place, fix the technical issues, fix the maintenance issues, quality issues, cash flow issues, people issues and then take and execute new business.

**Sonal Gupta**: Just last question again a clarification on the CAPEX on a cash flow basis tell us what is the CAPEX for this year both standalone and international?

**Amit Kalyani**: What we have today spent roughly is about 500 crores for the first half between standalone and overseas. Standalone we will probably spend about 100 more crores this year and overseas probably about close to 75 crores, 80 crores maybe 100 crores at a round number you are talking about 700 crores.

**Sonal Gupta**: And where should this number be next year how do you see that?

**Amit Kalyani**: See next year we do not need to make any forging capacity investments over here for sure and I would say overall CAPEX should not be more than about 250 to 300 crores.

**Moderator**: Thank you. The next question is from the line of Jinesh Gandhi from Motital Oswal. Please go ahead.

**Jinesh Gandhi**: Just couple of clarifications firstly you mentioned Euro 12 to 15 million dollar of power electronic revenue so is this entirely for some are Refu JV or beyond that as well?

**Amit Kalyani**: It is entirely Refu right now plus what we are shipping from India to Refu 50% of that value I will just ship from here.

**Jinesh Gandhi**: You said 40%.

**Amit Kalyani**: 30% of that is being ship from here currently.

**Jinesh Gandhi**: And secondly with respect to overseas operations you indicated double digit margins for full year so when first half was already close to 11% do you expect that will improve from there on or 11% to 12% is where it should stabilize?

**Amit Kalyani**: I think 11 will moderate a little bit because of the chip shortage creating overall reduction in demand, but I think for the full year we will have a double-digit number and then next year as our aluminum plant ramps up we will see a substantial increase.

**Moderator**: Thank you. The next question is from the line of Pramod Kumar from UBS Securities. Please go ahead.

**Pramod Kumar**: Amit just a follow up on the different side in addition to the artillery guns is there anything else which you are seeing which is kind of seeing some progress in terms of various changes of the tending of the tendering or the testing I am just trying to understand by when which quarter do you expect some meaningful defense revenues cannons to come in?

**Amit Kalyani**: Today we have three areas where we have let us say made significant progress. One is on the artillery guns, one is the vehicles and third is on this mounted guns that we have made. So, we have made a light strike vehicle called the Garuda and we have a MGS which is a 15539 mounted on a 4 by 4. So, these are the three areas. Today we have order for the vehicle side for the lighter vehicle and for the heavy vehicle. On the gun side we have one gun in testing which has reached the final stage and on the mounted gun side we are now going for testing.

**Pramod Kumar**: By when do you expect this to become a meaningful part of your business?

**Amit Kalyani**: What do you define as meaningful 5%, 10%, 15%?

**Pramod Kumar**: 5% to 10% to begin with.

**Amit Kalyani**: So let us say if you are saying 10% I would say it would take about two years or so.

**Pramod Kumar**: And second question on the CV demand recovery Amit you have been a better of cycles company has seen so many cycles, how do you see the cycle playing out there is massive increase in fuel prices on one end there is a surplus tonnage capacity which got created few years back and also there is some bit of incremental competition or a more organized railways in form of dedicated freight corridor and all that, so given your experience have you seen the production schedule which has come from the OEMs so far in line with what you expect or they are kind of lagging?

**Amit Kalyani**: Right now we are seeing Q3 higher than Q2 and Q4 higher than Q3, but over a more longer term I expect that you will see a shift on the truck manufacturing side where you will have of highway trucks which are for construction and mining growing and then the ICV sector and the SPV sector growing because as you rightly said the heavy commercial vehicle not only is it the railways which is affecting or taking away markets, but it is the highways and the GST which has improved the kilometers per day or ton kilometers per day that is carried and therefore the efficiency of transportation has increased, but at the same time because of e-commerce and other things the demand of last mile delivery has substantially gone up and that will see a big growth in the ICV for the hub to spoke and then the small commercial vehicle for the last mile delivery.

**Pramod Kumar**: If I can squeeze one question any updates on Torque in terms of product launch because the space is clearly excited the demand what we are seeing in terms of bookings or interest and order backlog is quite huge even on two wheelers so if you can just help us understand how do you see Torque kind of?

**Amit Kalyani**: We have invested in Torque because we think that they have a good product and that we can get into their supply chain and learn the product technology and the supply side, but in terms of the day-to-day operations of Torque I am not directly involved, but I am certain that they are in a position where in a few months they will make some announcement about their product launch etcetera.

**Pramod Kumar**: Can you talk more about your existing supplies to any electric vehicles, start up for traditional OEM business you want to share of this of this product?

**Amit Kalyani**: I do not want to names, but as I mentioned that we are already supplying even in India our revenue to electric vehicles will be in excess of I would say 10 crores to 15 crores this year and probably a healthy double digit almost heading to significant double digit number next year heading to triple digit year after next.

**Pramod Kumar**: If I can push more on that is it more on motor related bits on the electronic side?

**Amit Kalyani**: It is on the control and power electronics.

**Moderator**: Thank you.

**Amit Kalyani**: Ladies and gentlemen thank you for your time and interest and as usual if anybody has any other question please feel to reach out to our team we would be happy to take your questions and thank you for your interest and support to our company and have a pleasant healthy and safe weekend. Thank you very much.

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