Bharat Forge (BHAFOR)

ICICI Direct

CMP: ₹ 1,750 | Target: ₹ 2,050 (17%) | Target Period: 12 months | **BUY**

February 17, 2026

Tariff headwinds easing, recovery taking shape...

About stock: Bharat Forge (BFL) is India's leading auto component player with strong engineering, technological competencies in forging and metallurgy. Its products find application in domestic, exports markets across PV, CV, oil & gas, construction & mining, power, defence, etc.

- FY25 standalone domestic mix – ~26% CV, ~64% Industrial, ~10% PV
- FY25 standalone export mix - ~70% America, ~24% Europe, ~6% other

Q3FY26 Result: Standalone revenues for the quarter came in at ₹ 2,084 crore flat YoY, amidst an 6% de-growth in tonnage at 57,859 tonnes. Standalone EBITDA in Q3FY26 stood at ₹ 566 crore, with consequent margins placed at 27.2%, down 112 bps QoQ. Reported standalone PAT stood at ₹ 288 crore, down ~17% YoY.

Investment Rationale

- **Domestic strength emerging as Macro pressures recede:** Bharat Forge is a leading forging player domestically manufacturing components with application in Automotive sector (Steel and aluminium forgings for CV and PV space) and Industrial sectors such as Oil & Gas, Renewables, Aerospace and Defence among others. Its traditional business of supplying forging components to automotive space was witnessing growth challenges on the export front amidst global macro uncertainty (US tariff led), which after the US-India trade deal is on the favourable front due to tariff normalization from 50% to 18%. With global OEMs increasing sourcing from India and multiple domestic verticals seeing secular growth, the company is investing in steel forging, ferrous & aluminium casting, and axle aggregates, creating a broad manufacturing stack. On the consolidated basis, factoring in the recovery across segments, we build in 13.6% revenue CAGR over FY25-28E.
- **Structural growth optionality across Defence, Aerospace, & Industrial:** Bharat Forge is transitioning from a cyclical auto-led exporter to a diversified engineering and defence platform with multiple long-term growth engines. The defence business is entering a strong execution phase supported by ATAGS, small arms, and expanding unmanned systems portfolio (Drones), with management guiding for 30–40% growth next year and a potential rise in revenue mix from ~10–12% currently to ~18–20% by 2030. Aerospace is emerging as another structural driver with new programs and capacity additions expected to meaningfully scale the business over the next few years. In addition, industrial segments such as oil & gas and casting are showing steady growth, while strategic investments in specialty materials and super-alloys position the company deeper into high-value manufacturing.

Rating and Target Price

- With improving overseas performance, tariff normalization, CV upcycle domestically and restructuring initiatives in Europe providing additional margin recovery optionality, we assign **BUY rating** on the stock & value it at **₹ 2,050 i.e. 43x P/E on FY28E EPS.**

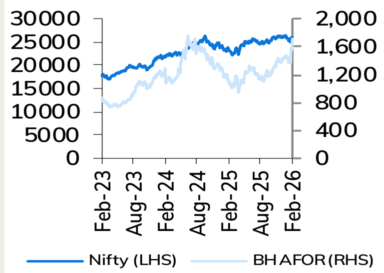
Particulars

Particular	₹ crore
Market Capitalization	83,674
Total Debt (FY25)	6,288
Cash and Inv. (FY25)	2,644
EV	87,318
52 week H/L (₹)	1,784 / 919
Equity capital	95.6
Face value (₹)	2.0

Shareholding pattern

	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	44.1	44.1	44.1	44.1
FII	16.1	14.4	13.6	12.4
DII	30.2	31.3	32.1	34.1
Other	9.7	10.3	10.2	9.5

Price Chart



Recent Event & Key risks

- India-US Trade deal to benefit Exports. Domestic robust demand to aid overall recovery
- **Key Risk:** (i) slower than anticipated growth in new business verticals (ii) less than anticipated gains from o/p leverage

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Key Financial Summary

Key Financials (₹ crore)	FY21	FY22	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Net Sales	6,336	10,461	12,910	15,682	15,123	13.4%	16,857	19,453	22,145	13.6%
EBITDA	862	2,016	1,768	2,558	2,694	19.3%	3,001	3,716	4,462	18.3%
EBITDA Margins (%)	13.6	19.3	13.7	16.3	17.8		17.8	19.1	20.2	
Net Profit	(127)	1,077	508	910	913	21.2%	1,267	1,779	2,277	35.6%
EPS (₹)	(2.7)	23.1	10.9	19.6	19.1		26.5	37.2	47.6	
P/E	(641.3)	75.6	160.2	89.5	91.6		66.1	47.0	36.8	
RoNW (%)	(125.9)	15.2	8.0	12.8	11.0		13.0	16.0	18.2	
RoCE (%)	2.2	9.6	6.8	10.9	11.1		11.8	14.8	17.6	

Source: Company, ICICI Direct Research

Key Takeaways of Recent Quarter

Q3FY26 Earnings Conference Call Highlights:

- **Performance & Business trends:** Domestic automotive business remained strong, helped by GST reforms and strong CV demand in India, which management expects to continue into Q4 and early next year. Industrial segment saw robust growth (11%) led by oil & gas and aerospace. Export markets remained weak due to North American truck cycle (revenues down 51%) downturn, though management indicated the cycle has likely bottomed out and gradual improvement is expected. Passenger vehicle exports continue to grow with strong engagement with global OEMs. Aerospace is expected to become a meaningful growth driver over the next few years with new programs and capacity expansion.

- **Order Book and Business Wins:** During the quarter, Bharat Forge secured ₹2,388 crore of new business across segments, including ₹1,878 crore in Defence, ₹378 crore in components, ₹78 crore in casting, and ₹55 crore in K-Drive. Order pipeline in Defence remains strong with multiple new programs under development and bidding. Management remains bullish on long-term Defence demand due to rising global and Indian defence budgets and increasing localization focus under new procurement policies.

- **Capex and Investments:** The company continues to invest in long-term growth sectors including Defence, aerospace, and strategic manufacturing. New capacity additions are underway to support long-term strategic orders. Bharat Forge is also evaluating potential M&A opportunities in strategic areas. The group announced a large investment project in Odisha involving specialty steel, super-alloys, and downstream manufacturing, with Bharat Forge expected to invest up to ₹3,000 crore in a later phase of expansion.

- **Overseas Operations and Restructuring:** European operations remained stable but challenged by weak demand and macro uncertainty, operating at 60–65% utilization. The company continues cost-reduction and improvement measures but is also evaluating restructuring of its European steel business, with an update expected by fiscal year end. US aluminium operations remained stable but faced profitability pressure due to tariffs, operating at ~65% utilization. For the 9MFY26, US losses reduced significantly & European losses improved, reflecting ongoing turnaround.

- **Defence and Aerospace Outlook:** Management expects 30–40%+ growth in Defence next year, supported by execution of ATAGS orders and CQB production. Over the medium term, defence revenue contribution is expected to rise from ~10–12% currently to ~18–20% by 2030, with potential to grow even larger depending on global opportunities. Profitability in Defence is expected to be comparable to automotive at EBITDA level but with higher ROCE and long-tail MRO income. Execution cycle for Defence orders ranges between 4–5 years

- **Subsidiaries:** Indian subsidiaries continued strong performance, with casting business (JSA) delivering 22% revenue growth and 39% EBITDA growth. K-Drive saw improved profitability despite muted revenue. The company highlighted the successful value creation in JSA, including a strategic investment by Premji Invest, reflecting strong growth prospects. Overseas subsidiaries showed stable to improving performance as restructuring and efficiency initiatives continue.

- **Outlook commentary:** Management indicated that the worst of the downturn appears behind, with early signs of recovery emerging. Domestic CV demand remains strong and exports are expected to gradually improve as the US truck cycle bottoms out and order inflows rise. Passenger vehicle exports remain strong with increasing opportunities. Aerospace is expected to grow strongly over the next few years, becoming a significant contributor to revenue and profitability

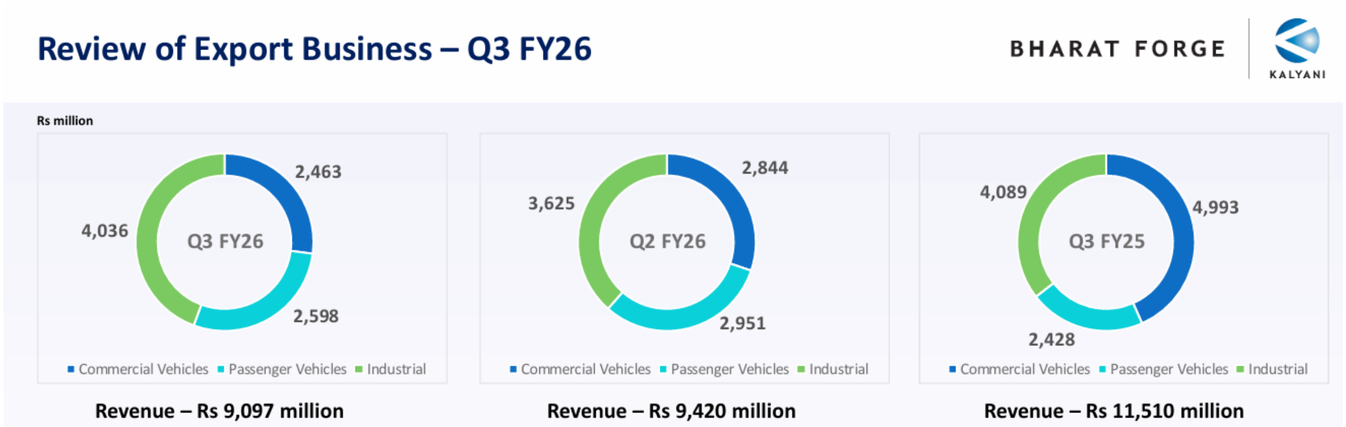
Quarterly Result Analysis and Key Charts from PPT

Exhibit 1: Quarterly Variance Analysis

₹ crore	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Total Operating Income	2,084	2,096	-0.6	1,947	7.0
Raw Material Expenses	809	840	-3.8	705	14.6
Employee Expenses	171	158	7.8	167	2.0
Other Expenses	538	488	10.3	523	2.8
EBITDA	566	610	-7.1	551	2.8
EBITDA Margin (%)	27.2	29.1	-191 bps	28.3	-112 bps
Depreciation	112.0	110.4	1.5	111.2	0.7
Interest	41.4	57.3	-27.7	48.3	-14.2
Other Income	27	31	-13.0	46	-41.2
PBT	391.6	472.7	-17.1	430.2	-9.0
Tax	103.5	126.6	-18.2	120.2	-13.9
Reported PAT	288.1	346.1	-16.8	310.0	-7.1
Key Metrics					
Domestic revenues	1,174	919	27.8	1,005	16.8
Export revenues	910	1,151	-21.0	942	-3.4
Tonnage sold	57,859	61,507	-5.9	56,458	2.5

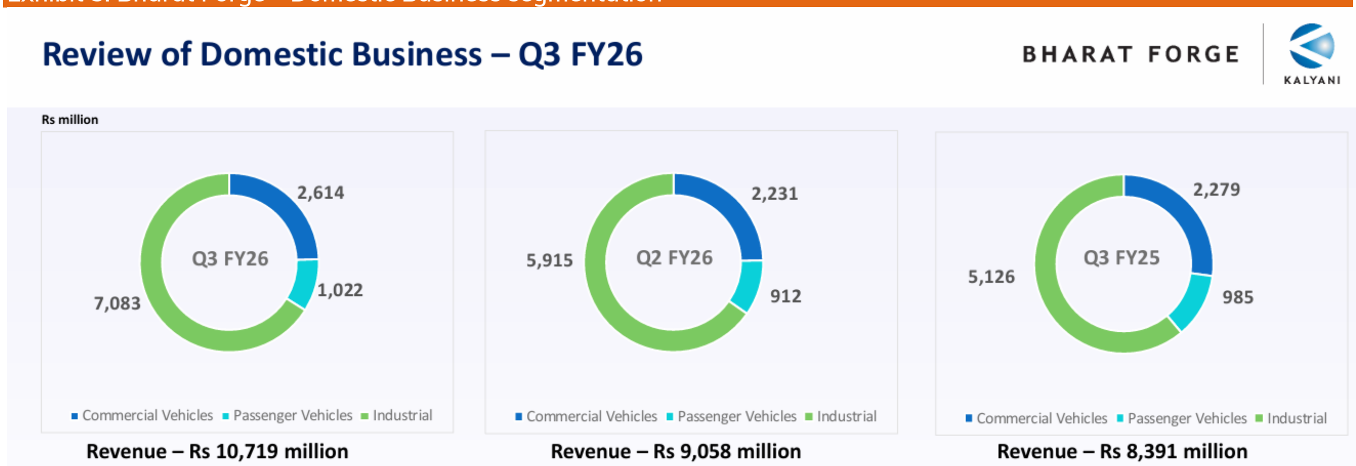
Source: Company, ICICI Direct Research, (Standalone figures)

Exhibit 2: Bharat Forge – Export Business segmentation



Source: Company, ICICI Direct Research

Exhibit 3: Bharat Forge – Domestic Business segmentation



Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total operating Income	**15,123**	**16,857**	**19,453**	**22,145**
Growth (%)	-3.6	11.5	15.4	13.8
Raw Material Expenses	6,594	7,417	8,559	9,633
Employee Expenses	1,870	2,158	2,334	2,602
Other expenses	3,965	4,282	4,844	5,448
Total Operating Expenditure	12,429	13,856	15,738	17,683
EBITDA	2,694	3,001	3,716	4,462
Growth (%)	5.3	11.4	23.8	20.1
Depreciation	874	978	1,070	1,163
Interest	417	312	294	264
Other Income	214	195	198	210
PBT	1,617	1,906	2,549	3,245
Others	-4	-3	-1	-4
Total Tax	543	574	765	974
PAT	913	1,267	1,779	2,277
Growth (%)	0.3	38.7	40.5	28.0
EPS (₹)	**19.1**	**26.5**	**37.2**	**47.6**

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit after Tax	**913**	**1,267**	**1,779**	**2,277**
Add: Depreciation & Interest	1,291	1,290	1,364	1,427
(Inc)/dec in Current Assets	-288	-900	-1307	-1355
Inc/(dec) in CL and Provisions	117	449	644	668
CF from operating activities	2,034	2,105	2,480	3,016
(Inc)/dec in Investments	-327	200	0	-100
(Inc)/dec in Fixed Assets	-1937	-1250	-1000	-1000
Others	342	-225	-133	-136
CF from investing activities	-1923	-1275	-1133	-1236
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1234	-50	-350	-600
Dividend paid & dividend tax	-406	-478	-669	-861
Inc/(dec) in Sec. premium	0	0	0	0
Others	1131	-312	-294	-264
CF from financing activities	(509)	(840)	(1,314)	(1,725)
Net Cash flow	-398	-9	34	55
Opening Cash	1,690	1,291	1,282	1,316
Closing Cash	**1,291**	**1,282**	**1,316**	**1,371**

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity Capital	96	96	96	96
Reserve and Surplus	9,125	9,913	11,023	12,439
Total Shareholders funds	9,221	10,009	11,119	12,535
Total Debt	6,288	6,238	5,888	5,288
Deferred Tax Liability	120	120	120	120
Minority Interest / Others	726	746	766	786
Total Liabilities	**16,354**	**17,113**	**17,892**	**18,728**
Assets				
Gross Block	15,737	17,237	18,487	19,737
Less: Acc Depreciation	9,395	10,373	11,443	12,605
Net Block	6,342	6,865	7,045	7,132
Capital WIP	1,725	1,475	1,225	975
Total Fixed Assets	8,068	8,340	8,270	8,107
Investments	2,354	2,330	2,380	2,530
Inventory	3,578	3,926	4,530	5,157
Debtors	2,900	3,325	3,837	4,368
Loans and Advances	17	19	21	24
Other Current Assets	1,093	1,219	1,406	1,601
Cash	1,291	1,282	1,316	1,371
Total Current Assets	8,879	9,770	11,112	12,522
Creditors	2,344	2,632	3,038	3,458
Provisions	195	219	252	287
Other Current Liabilities	1,195	1,332	1,537	1,750
Total Current Liabilities	3,734	4,183	4,828	5,495
Net Current Assets	5,145	5,587	6,284	7,026
Other non-current assets	788	856	959	1,065
Application of Funds	**16,354**	**17,113**	**17,892**	**18,728**

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
EPS	19.1	26.5	37.2	47.6
Cash EPS	37.4	46.9	59.6	71.9
BV	192.8	209.3	232.5	262.2
DPS	8.5	10.0	14.0	18.0
Cash Per Share	55.3	50.9	51.6	54.9
Operating Ratios				
EBITDA Margin (%)	17.8	17.8	19.1	20.2
PBT / Net sales (%)	12.0	12.0	13.6	14.9
PAT Margin (%)	6.0	7.5	9.1	0.0
Inventory days	86.4	85.0	85.0	85.0
Debtor days	70.0	72.0	72.0	72.0
Creditor days	56.6	57.0	57.0	57.0
Return Ratios (%)				
RoCE	11.1	11.8	14.8	17.6
RoE	11.0	13.0	16.0	18.2
RoIC	15.2	15.3	18.6	21.8
Valuation Ratios (x)				
P/E	82.7	64.1	47.0	36.8
EV / EBITDA	32.4	29.2	23.4	19.3
EV / Net Sales	5.8	5.2	4.5	3.9
Market Cap / Sales	5.5	5.0	4.3	3.8
Price to Book Value	9.1	8.4	7.5	6.7
Solvency Ratios				
Debt/EBITDA	2.3	2.1	1.6	1.2
Debt / Equity	0.7	0.6	0.5	0.4
Current Ratio	2.0	2.0	2.0	2.0
Quick Ratio	1.1	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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