

## RETAIL EQUITY RESEARCH

## Bharat Forge Ltd

## Automobile Ancillaries

BSE CODE:500493

NSE CODE: BHARATFORG

Bloomberg CODE: BHFC IN SENSEX: 28,183

Buy

Rating as per Mid Cap

12months investment period

CMP Rs825 TARGET Rs960 RETURN 16%9<sup>th</sup> August, 2016

## Growth to pick up in FY18...

Bharat Forge Ltd (BFL) is a leading player in the forgings industry. The company is serving several sectors including automobile, power, oil and gas, rail & marine, aerospace, construction, mining etc.

- Q1FY17 standalone revenue de-grew by 21% YoY, as exports (contributes 60% sales) de-grew by -40% YoY.
- Lower demand from the US truck manufacturers and oil & gas sector (Non auto) has impacted the exports business.
- EBITDA margin was at 27% down by 430bps, due to product mix with lower value addition and lower realisation.
- The orders from Boeing and new defence JV with AM General will provide higher revenue visibility in non auto sector during FY18.
- Strong domestic auto volume and higher realization in Non auto sector to continue, supported by gradual recovery in export market.
- Given its leadership position & product diversification and higher revenue visibility in FY18, we value BFL at 24x FY18E EPS and upgrade our rating to Buy from Accumulate with a target price of Rs960.

## Revenue was below estimates...

Q1FY17 revenue de-grew by 21%YoY, largely due to the weakness in the export sales. BFL's 60% of the revenue is contributed from international market, which de-grew by -45%YoY. De-stocking by the OEM'S in view of lower US truck sales and tepid demand from oil & gas sector due to contraction in oil price impacted the export sales. EBITDA margin was at 27% down by 430bps, largely due to product mix with lower value addition and lower realization. PAT stood at 122 cr in Q1FY17, a decline of 37.7% as compared to Q1FY16.

## Revenue visibility over long term

We expect the domestic auto segment to register double digit growth on the back of improved demand from the OEM'S. Pre-buying ahead of the complete roll out of BS-IV emission norms by April FY17 and increased investments in infrastructure projects is expected to revive domestic CV segment. Additionally the company will see number of new sectors such as driveline components for trucks and hybrid components for passenger cars. Further, BFL is now de-risking from Oil and Gas in Non auto segment and exploring opportunities in Aerospace & Defence sector. BFL's order from Boeing for developing and manufacturing 777x titanium forgings will start reflecting in its revenue. Further, NTPC JV in power sector will be another focus area in FY18. BFL's these measures will provide incremental growth and revenue visibility in the long term.

## EBITDA margins to be stable...

We expect standalone EBITDA margins in a range of 29%- 31% in FY17. We believe that fall in commodity prices & cost rationalisation will bring improvement in margins. Positive automotive demand and ramp up of passenger vehicle business will add colours to margin. Going forward we maintain our Consolidated EBITDA margin estimates at 18.9% and 19.2% for FY17E and FY18E

## Valuations

At CMP, BFL is trading at P/E of 28x/21x on FY17E/FY18E EPS respectively. We believe de-risking the utilization in non auto segment and ramp up of PV sales will offset some headwinds. We believe that the slowdown in export market has bottomed out and the worst has factored in the price. We expect 37% earnings growth in FY18 and value at 24x (5 yr historical average) on FY18E EPS and change our rating to Buy from Accumulate with target price of 960.

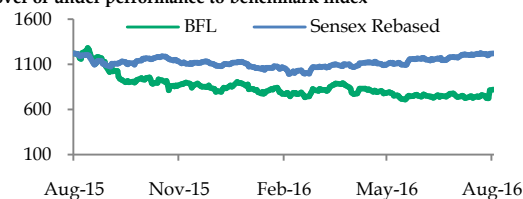
## Company Data

Market Cap (cr)	Rs19,209
Enterprise Value (cr)	Rs21,851
Outstanding Shares (cr)	232.8
Free Float	53%
Dividend Yield	0.5%
52 week high	Rs1293
52 week low	Rs687
6m average volume (cr)	0.9
Beta	1.36
Face value	Rs2

Shareholding %	Q3FY16	Q4FY16	Q1FY17
Promoters	46.75	46.75	46.75
FII's	5.79	7.74	6.79
MFs/Insti	26.36	25.23	26.66
Public	21.10	20.29	19.80
Total	100.00	100.00	100.00

Price Performance	3mth	6mth	1 Year
Absolute Return	4.5%	6.7%	-32.5%
Absolute Sensex	9.4%	16.0%	0.6%
Relative Return*	-4.4%	-8.1%	-32.9%

\*over or under performance to benchmark index



Y.E March (Rs cr)	FY16A	FY17E	FY18E
Sales	7,647	7,598	9,059
Growth (%)	0.3	(0.6)	19.2
EBITDA	1,421	1,436	1,739
Margins (%)	18.6	18.9	19.2
PAT Adj	658	675	931
Growth (%)	(9.1)	2.6	37.9
Adj.EPS	28.3	29.0	40.0
Growth (%)	(9.1)	2.6	37.9
P/E	29.2	28.5	20.6
P/B	5.3	4.5	3.8
EV/EBITDA	15.4	15.2	12.5
ROE (%)	18.7	17.5	20.4
D/E	0.3	0.6	0.5

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Analyst

## Standalone Quarterly yearly Financials

### Profit & Loss Account

(Rs cr)	Q1FY17	Q1FY16	YoY Growth %	Q4FY16	QoQ Growth %
Sales	904	1,139	(20.6)	1,008	(6.4)
EBITDA	244	357	(31.6)	298	(18.1)
EBITDA margins	27.0	31.3	(430bps)	29.6	(260bps)
Depreciation	74	75	(1.3)	64	15.6
EBIT	171	282	(39.3)	234	(21.1)
Interest	17	21	(19.0)	20	(15.0)
Other Income	26	30	(13.3)	22	18.2
Exceptional Items	-	-	-	-	-
PBT	179	290	(38.3)	236	(24.2)
Tax	57	94	(39.4)	72	(20.8)
Reported PAT	122	196	(37.8)	165	(26.1)
Adjustments	-	-	-	-	-
Adj PAT	122	196	(37.8)	165	(26.1)
No. of shares (cr)	23.3	23.3	-	23.3	-
EPS (Rs)	5.2	8.4	(37.8)	7.1	(26.1)

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Revenue	7,793	9,080	7,598	9,059	(2.5)	(0.2)
EBITDA	1,481	1,743	1,436	1,739	(3.0)	(0.2)
Margins (%)	19.0	19.2	18.9	19.2	-10bps	-
PAT	697	919	675	931	(3.2)	1.2
EPS	30.0	39.5	29.0	40.0	(3.2)	1.2

### Standalone Segment Revenue

(Rs cr)	Q1FY17	Q1FY16	YoY Growth %	Q4FY16	QoQ Growth %
Segments					
Domestic	513	473	8.5	471	8.9
Export	391	666	(40.8)	537	(26.2)
Total Segmental Revenue	904	1,139	(20.6)	1008	(10.3)



## Consolidated Financials

### Profit & Loss Account

Y.E March (Rscr)	FY14A	FY15A	FY16A	FY17E	FY18E
<b>Sales</b>	<b>6,716</b>	<b>7,625</b>	<b>7,647</b>	<b>7,598</b>	<b>9,059</b>
% change	30.0	13.5	0.3	(0.6)	19.2
<b>EBITDA</b>	<b>1,030</b>	<b>1,441</b>	<b>1,421</b>	<b>1,436</b>	<b>1,739</b>
% change	30.1	39.9	(1.4)	1.0	21.1
Depreciation	357	362	419	402	419
<b>EBIT</b>	<b>673</b>	<b>1,078</b>	<b>1,003</b>	<b>1,034</b>	<b>1,320</b>
Interest	169	136	140	162	144
Other Income	125	137	134	159	196
<b>PBT</b>	<b>732</b>	<b>1,122</b>	<b>990</b>	<b>1,030</b>	<b>1,372</b>
% change	61.5	53.3	-11.8	4.0	33.2
Tax	210	359	341	354	442
Tax Rate (%)	28.7	32.0	34.4	34.4	32.2
<b>Reported PAT</b>	<b>499</b>	<b>767</b>	<b>652</b>	<b>675</b>	<b>931</b>
Adj*	104	43	(5)	0	0
<b>Adj PAT</b>	<b>395</b>	<b>724</b>	<b>658</b>	<b>675</b>	<b>931</b>
% change	87.0	83.3	(9.1)	2.6	37.9
No. of shares (cr)	23	23	23	23	23
<b>Adj EPS (Rs)</b>	<b>17</b>	<b>31</b>	<b>28</b>	<b>29</b>	<b>40</b>
% change	87.0	83.3	(9.1)	2.6	37.9
DPS (Rs)	4	9	22	4	5
CEPS (Rs)	32	47	46	46	58

### Cash flow

Y.E March (Rscr)	FY14A	FY15A	FY16A	FY17E	FY18E
Net inc. + Deprn.	1,090	1,485	1,409	1,433	1,792
Non-cash adj.	(214)	(347)	(184)	(198)	(308)
Changes in W.C	(159)	(633)	367	(680)	(481)
<b>C.F.O</b>	<b>716</b>	<b>505</b>	<b>1,592</b>	<b>543</b>	<b>1,003</b>
Capital exp.	184	(539)	(614)	(554)	(557)
Change in inv.	(553)	289	(743)	(25)	(27)
Other invest.CF	181	48	0	0	0
<b>C.F - investing</b>	<b>(187)</b>	<b>(202)</b>	<b>(1,358)</b>	<b>(579)</b>	<b>(584)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(61)	399	218	(50)	(130)
Dividends paid	(170)	(210)	(521)	(93)	(107)
Other finance.CF	(75)	(155)	(140)	(162)	(144)
<b>C.F - Financing</b>	<b>(640)</b>	<b>34</b>	<b>(443)</b>	<b>(305)</b>	<b>(381)</b>
Chg. in cash	(168)	347	(204)	(331)	386
Closing cash	240	682	478	146	185

### Balance Sheet

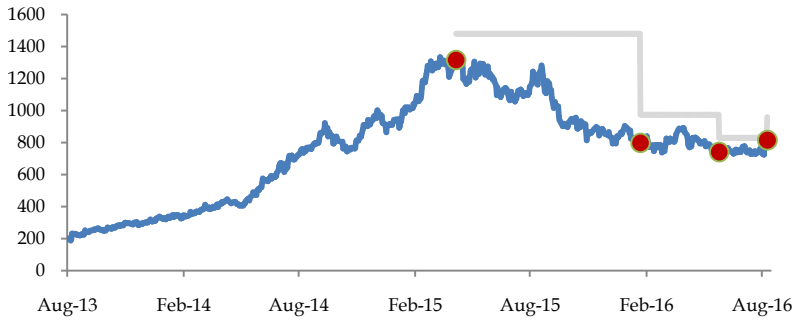
Y.E March (Rscr)	FY14A	FY15A	FY16A	FY17E	FY18E
Cash	240	682	478	146	185
Accounts Receivable	866	853	1,146	937	1,191
Inventories	1,039	1,034	1,183	1,044	1,272
Other Cur. Assets	696	880	532	999	1,241
Investments & Loans	1,577	1,297	1,492	1,654	2,090
Gross Fixed Assets	5,298	5,561	6,161	6,711	7,261
Net Fixed Assets	2,510	2,560	2,741	2,889	3,020
CWIP	583	859	1,294	1,342	1,089
Intangible Assets	24	68	83	87	94
Def. Tax (Net)	(164)	(164)	(183)	(176)	(166)
Other Assets	2	1	0	0	1
<b>Total Assets</b>	<b>7,370</b>	<b>8,070</b>	<b>8,765</b>	<b>8,923</b>	<b>10,016</b>
Current Liabilities	2,356	1,905	2,338	1,906	2,228
Provisions	289	299	213	271	347
Debt Funds	2,025	2,424	2,642	2,592	2,462
Minority Interest	17	-2	-4	-4	-4
Equity Capital	47	47	47	47	47
Reserves & Surplus	2,637	3,398	3,529	4,112	4,935
Shareholder's Fund	2,683	3,444	3,576	4,158	4,982
<b>Total Liabilities</b>	<b>7,370</b>	<b>8,070</b>	<b>8,765</b>	<b>8,923</b>	<b>10,016</b>
<b>BVPS (Rs)</b>	<b>114</b>	<b>145</b>	<b>150</b>	<b>175</b>	<b>210</b>

### Ratios

Y.E March	FY14A	FY15A	FY16A	FY17E	FY18E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	18.9	18.6	18.9	19.2	18.9
EBIT margin (%)	14.1	13.1	13.6	14.6	14.1
Net profit mgn.(%)	9.5	8.6	8.9	10.3	9.5
ROE (%)	23.6	18.7	17.5	20.4	23.6
ROCE (%)	9.2	7.4	7.9	10.4	9.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	41.2	47.7	50.0	42.9	41.2
Inventory (days)	49.6	52.9	53.5	46.6	49.6
Payables (days)	102.0	101.3	101.9	83.3	102.0
Current ratio (x)	1.9	1.6	1.8	1.9	1.9
Quick ratio (x)	0.7	0.7	0.6	0.6	0.7
<b>Turnover &amp;Levg.</b>					
Gross asset T.O (x)	1.4	1.3	1.2	1.3	1.4
Total asset T.O (x)	1.0	0.9	0.9	1.0	1.0
Int. covge. ratio (x)	8.0	7.1	6.4	9.2	8.0
Adj. debt/equity (x)	1.0	1.1	0.6	0.5	1.0
<b>Valuation ratios</b>					
EV/Sales (x)	3.2	2.8	2.9	2.9	2.4
EV/EBITDA (x)	20.6	15.0	15.4	15.2	12.5
P/E (x)	48.7	26.5	29.2	28.5	20.6
P/BV (x)	7.2	5.6	5.3	4.5	3.8



## Recommendation Summary (last 3 years)



Dates	Rating	Target
6-Apr -15	Accumulate	1480
22-Jan-16	Buy	974
26-May-16	Accumulate	830
9-August-16	Buy	960

Source: Bloomberg, Geojit BNP Paribas Research

## Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.					

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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