



Between the Lines

Daily Corporate News Analysis

May 10th, 2007

Bharat Forge Ltd.

Update: Q3FY07 Results

Key Data

CMP	Rs 344
Date	May 10 th , 2007
Sector	Forgings
Face Value	Rs.2
BSE Code	500493
52 Week H/L	Rs 436 / 221
Market Cap	Rs 7659 Cr

Investment Rationale

Bharat Forge Ltd (BFL) a part of the Kalyani group is the largest Forging Company in India, company has a fully integrated facility with capabilities in design & engineering, die & tool making, forging a wide range of products, machining and testing & validation. For the Dec. 06 quarter, Bharat Forge Ltd. (BFL) has reported a 20% Y-o-Y growth in standalone Net sales. The operating profit margin improved by 127 basis points to 25.97% where as Net Profit expanded by 18% to Rs.62.97 crore. Its consolidated results continue to show a substantial rise in revenues and profits owing to its acquisitions, even its EBIDTA margins have improved by 174 bps to 16.42%. The company made three acquisitions last year across three different markets. The full impact of recent acquisitions and the capacity ramp-up on the revenues and earnings will be felt in the financial year 2007-08.

Going forward, we believe the overseas revenues to witness strong growth on account of the acquisitions. Also, BFL sees large opportunities in the Non Automotive Business (Current share in business 17%) which is expected to increase to 25% in next 3 years. Though the current valuation of the company, appear to be on the higher side we believe that the benefits of these new acquisitions (which are in the process of being integrated with its existing operations), will accrue in the forthcoming quarters. Hence, we maintain our positive outlook on the stock.

Key Developments:

BFL Plans forging unit in Baramati

BFL is setting up a center for advance manufacturing at Baramati. The plant will manufacture forgings and machined components for the aerospace, marine, rail and locomotive, mining and construction sectors. The Rs 350-crore, 100-acre plant is



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scheduled to begin operations by April 2008, with 80% of its production being exported for the first few years. This move will further enhanced the de-risk the business model and will provide a fresh push to strengthen the non-automotive forging business which is currently 17% and expected to cross 25% by 2008-09

Financial:

Bharat Forge Ltd (BFL) continues good show in Q3FY07 with attractive set of numbers, thrust on de-risk business model through organic and inorganic route. Standalone sales has increased 19.5% YoY basis to Rs.477.12 crore as compare to 399.40 crore, where as the 9M Dec.06 sales has also expanded by 18.3% to Rs.1348.37 crore. EBITDA margin for the company has improved by 127 bps to 25.97% due control over the operating cost especially material and labour. Recent acquisition by the company, wide geographical reach across 4 continents has started showing the symptoms, as export has increase by 23% YoY in Q3 to Rs.195.83 crore as compare to 19% for 9M Dec.06. Net profit margin continues to be under pressure due rising cost of debt and tight monetary policy as the Net Profit margin has shrink by 5 bps on YoY for Q3FY07. The company has taken the adequate measures to control the interest cost by issuing 0.5% coupon, FCCB (Foreign Currency Convertible Bonds) of \$60 million to be exercise in 2010.

Valuation:

At current market price of Rs 344, Bharat Forge is quoting at a PER of 32.93x. On EV/Sales and on EV/ EBITDA basis it is quoting at 4.56x and 18.34x of its TTM standalone earnings respectively.



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