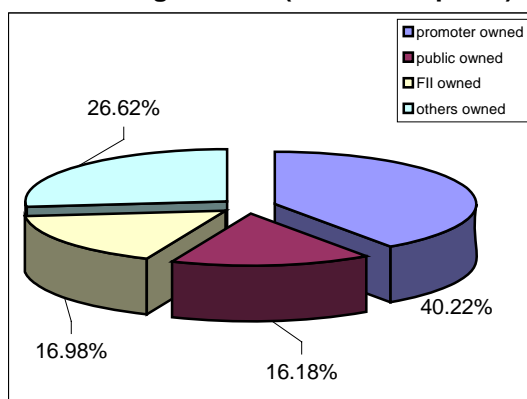


Stock statistics 7 December 2007

Market Cap (Rs Mn)	: 77928.30
52-Week high/low (Rs)	: 396/254
Face value	: 2
BSE Code	: 500493
NSE Code	: BHARATFORG
Industry	: AUTOCOMPONENTS
Shares outstanding	: 22,26,52,271
Avg. daily vol. (30 days)	: 3.32

Shareholding Pattern (as on 30 sept. '07)



Key Statistics (as on 7 December 2007)

CMP	: 350.00
BV (FY'07)	: 59.14
PE	: 29.99
PB	: 5.91
Beta	: 0.97
Turnover (Rs Mn)	: 106.59
Net worth (Rs Mn)	: 13170.47

Business Background

Bharat Forge Ltd (BFL), a flagship company of the Kalyani group is the second largest forging company in the world. The company commenced its operations in 1966. The product range of the company includes forged automotive products such as finished machine crankshafts, component assembly, sub-assembly of industrial machinery and general engineering equipment. BFL is one of the leading suppliers of forged and machined engines and chassis components in India. The company has its presence in rail & marine, aerospace, energy, oil & gas, metals and infrastructure. As one of India's emerging multinationals, the company has manufacturing operations across ten locations and six countries – 3 in India, 3 in Germany and one each in Sweden, Scotland UK, and USA & China.

Industry outlook

The automobile ancillary industry witnessed a subdued growth due to sluggish demand in the automobile sector. The sector in the past had seen contracting of margins and pressurized topline, but now the situation seems to have changed with the auto sector trying to surge ahead with all the major players posting an increase in the sales of the vehicles in last month. Major expansion and take over plans by the companies tends to move the sector ahead. Positive cues from the auto industry will add on to the opportunities available to the ancillary industry. According to the available data, it has been evident that the soaring oil prices had not made a very influential impact on the industry sales. Therefore, we expect a positive support from the Industry.

Investment Rationale

- The company has posted a growth of 25 percent in the quarter-ended Sep on the back of high exports. Such a performance of the company along with appreciation in the Indian currency proves that the company has immense potential for increasing its sales outside India as well.
- The company has been able to increase its share of non-US exposure to 50 % by now. The company has been able to push sales of engine components in the outer world. The company has been planning to expand its operations over south East Asia.
- The company is engaged in talks with NTPC to establish a joint venture to set up a new Greenfield manufacturing facility in the country. The JV will be put into force by either reducing the existing stakes or by infusing fresh equity. This JV if comes into force, will create immense opportunities for the company and the company will be manufacturing power plant equipment, including turbines, components and accessories, through technological tie-ups with other manufacturers.

FINANCIAL STATEMENT ANALYSIS

	Rs. mn				
Particulars	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Revenues	4506.85	4771.17	5160.50	4968.72	5632.24
Growth (%)	---	5.86485	8.16	(3.72)	13.35
Total Expenditure	3330.28	3532.21	3917.31	3956.48	4249.22
Operating Profit	1176.57	1238.96	1243.19	1012.24	1383.02
Growth (%)	---	5.30	0.34	(18.58)	36.63
OPM	26.11	25.97	24.09	20.37	24.56
Other Income	192.06	161.98	222.20	533.45	252.60
EBIDTA	1368.63	1400.94	1465.39	1545.69	1635.62
Interest	196.59	215.34	233.51	233.63	273.00
Depreciation	249.59	252.57	266.98	329.01	351.09
PBT	922.45	933.03	964.90	983.05	1011.53
Tax	300.61	303.30	322.09	334.92	334.05
Adjusted PAT	621.84	629.73	642.81	648.13	677.48
Growth (%)		1.27	2.08	0.83	4.53
Adjusted NPM	13.80	13.20	12.46	13.04	12.03
Reported PAT	621.84	629.73	642.81	648.13	677.48
EPS	2.79	2.83	2.89	2.91	3.04
Equity Capital	445.40	445.40	445.40	445.40	445.40

The company has posted extremely good results for Q2FY08. Net sales of the company have risen to Rs 5632.24 million in the quarter-ended Sep 07 compared to the figure of Rs 4506.85 million in corresponding quarter last year. Sales have shown a robust growth of 25 % on back of significantly high exports. The operating profits of the company have witnessed a growth of 17.54% when compared on Y-o-Y basis. The operating profit margin of the company has risen to 24.56% in Q2FY08 compared to 20.37% in the quarter ended June 07. The EBIDTA for Q2FY08 has increased to Rs 1635.62 million against Rs 1368.63 million in Q2FY07 showing a growth rate of 19 %. The EBIDTA margins for the quarter ended Sep'07 stood marginally down at 29 % compared to 30 % in the corresponding quarter last year. On comparing the bottom line of the company we find a decent increase of 9% with a net profit of Rs 677.48 million being reported in Q2FY08. The net profit margin of the company stood at 12.03% for Q2FY08 as compared to 13.80 % in Q2FY07. This decline in the net margins can be attributed to the increased interest and depreciation figures in the latest quarter, even the impact of the appreciating rupee cannot be ignored on the export incomes. The earning per share for the company stands at Rs 11.67(calculated on TTM basis)

Valuation:

Bharat forge ltd. has been a pioneer company in the auto ancillary sector. The company has truly made India global by being one of the fastest growing Indian MNC. The Company has its operations over 10 countries. The joint venture plans with the power sector giant NTPC is going to be a new step of its kind and the company will be able to foray into the power sector equipments category. The manufacturing facility of NTPC and Bharat Forge will take up fabrication, casting of forgings and pipings for various industries. This step will enable the company to diversify its operations and enter the emerging power sector and reap the potential benefits. The company has done exceptionally well throughout its inception and is expected to maintain its standards in future too. Since, the company has reduced its US exposure significantly, the depreciating dollar is also not going to have any serious effects on the bottom line of the company.

The stock is presently trading at Rs 350.00, which is about 5.91 times to its book value, and the price-earning ratio stands at near 30 times. Since the stock is showing immense potential we strongly recommend a buy signal on the stock with the target price of Rs 410 in the short term.

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