

RESULT UPDATE ✓

Bharat Forge (BHAFOR)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 180 from Rs 116
EPS (FY10E).....	Changed to Rs 4.1 from Rs 5.4
EPS (FY11E).....	Changed to Rs 9.0 from Rs 7.7
RATING.....	UNDERPERFORMER

Current Price Rs 241	Target Price Rs 180
Potential upside -25.3%	Time Frame 9 months

UNDERPERFORMER

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Poor show...

Bharat Forge (BFL) surprised us by reporting a substantial 44.8% de-growth in standalone net sales to Rs 351.6 crore. It was badly hit by a 41.2% fall in domestic sales and 52% fall in export revenues. Margins further slumped by 70 bps from Q4FY09 to 20.9% (24.5% in Q1FY08). This was mainly on account of a 400 bps rise in the staff costs to sales ratio. Higher finance costs further arrested the bottomline. It plunged by 96.3% to Rs 96 lakh as against profit of Rs 26.6 crore (Rs 61.1 crore in Q4FY09). On a consolidated basis, net sales slipped 53.6% to Rs 1,311.3 crore while at the net level, the company went into the red with a loss of Rs 46.1 crore as against profit of Rs 40.9 crore in the corresponding period.

As the company's standalone profit has been eaten by its subsidiaries and the trend continued in Q1FY10, we are revising our sales estimates and profit estimates downward for FY10E on a consolidated basis. However, improving sales from a changing product mix would support higher sales and profit for FY11E. Revised consolidated EPS for FY10E would be at Rs 4.4 (down 18.4%) while for FY11E it would be at Rs 9 (up 17.2%).

Valuations

Poor exports and a lingering domestic market provide a bleak outlook for the current year. However, we expect the same to improve next year. Furthermore, multi-year order intake of \$25 million from General Motors (reviving out of bankruptcy) and proposed venture with Alstom for power equipment with revenue guidance of Rs 1,600 per annum post FY12 provides a silver lining to the dark cloud. The proposed revenue inflow and expected recovery in domestic and export demand in FY11 emphasises comparatively higher multiples for the company. Accordingly, we value the stock at 20x its consolidated FY11E EPS of Rs 9, to arrive at our target price of Rs 180. Since the stock has run up in the last few days, at the CMP of Rs 241 we reiterate our **UNDERPERFORMER** rating.

Stock data

Mcaps	Rs 5,367.1 crore
Debt (FY09)	Rs 1,807.8 crore
Cash (FY09)	Rs 366.7 crore
EV	Rs 6,808.2 crore
52 week H/L	Rs 283 / 69
Equity cap	Rs 44.5 crore
Face value	Rs 2
MF Holding	4.0%
FII Holding	7.7%

Price Performance (%)

	Returns (%)			
	1M	3M	6M	12M
BHAFOR	77.4	70.4	206.3	-5.5
AMTAUT	22.2	41.3	160.4	-25.3

Exhibit 1: Key Financials (standalone)

	Q1FY10A	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09E	FY10E	FY11E
Net sales	358.6	637.4	291.6	-43.7	23.0	2,057.6	2,141.6	2,441.1
EBITDA	74.9	156.0	42.7	-52.0	75.4	445.0	448.1	551.2
EBITDA margin (%)	20.9	24.5	14.6	-	-	21.6	20.9	22.6
Depreciation	38.4	37.7	30.9	1.8	24.2	149.4	203.8	214.7
Interest	25.3	19.5	29.5	29.7	-14.0	100.4	96.8	89.3
Other inc/extraord item	-9.7	-57.3	114.0	-83.1	LP	(37.5)	40.0	80.0
Reported net profit	1.0	26.6	61.1	-96.3	-98.4	4.6	132.4	215.9
EPS (Rs)	0.0	1.2	2.7	-96.3	-	4.6	5.9	9.7
PE (x)	-	-	-	-	-	52.0	40.5	24.9
Target PE (x)	-	-	-	-	-	-	30.3	18.6
EV/EBITDA (x)	-	-	-	-	-	15.2	14.7	12.0
Price/book (x)	-	-	-	-	-	3.6	3.4	3.0
RoNW (%)	-	-	-	-	-	6.7	8.6	12.7
RoCE (%)	-	-	-	-	-	11.9	7.7	11.0

Source: Company, ICICIdirect.com Research

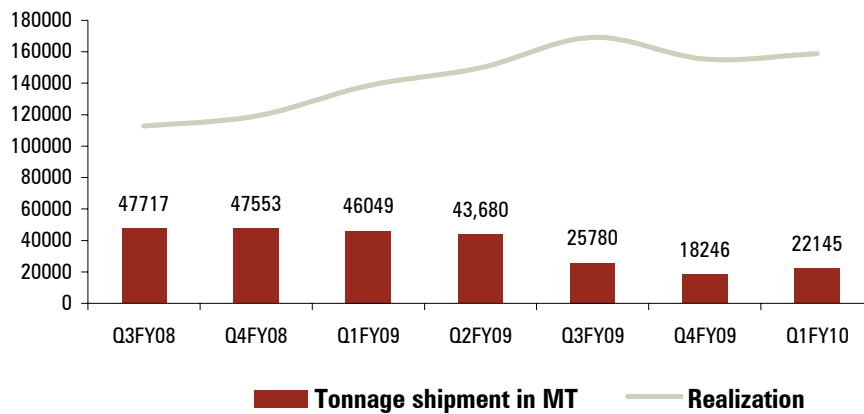
Exhibit 2: Key financials (consolidated)
(Rs crore)

	Q1FY10	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09	FY10E	FY11E
Net sales	609.0	1,311.3	627.3	-53.6	-2.9	4774.3	4972.9	5356.8
PBT before exceptional items	-20.3	131.6	-54.7	PL	NC	142.5	659.4	763.1
Other inc/extraord item	-24.8	-69.3	101.0	NC	NC	-81.2	50.0	75.0
Reported net profit	-46.1	40.9	20.3	PL	PL	58.7	99.2	202.9
EPS (Rs)	-2.1	1.8	0.9	NC	NC	1.1	4.4	9.0
Valuations								
PE (x)	-	-	-	-	-	-	54.7	26.7
Target PE (x)	-	-	-	-	-	-	40.8	20.0
Price/book (x)	-	-	-	-	-	-	3.7	6.4
RoNW (%)	-	-	-	-	-	-	6.4	17.8
RoCE (%)	-	-	-	-	-	-	17.3	21.7

Source: Company, ICICIdirect.com Research

Realisation improving on account of changing product mix

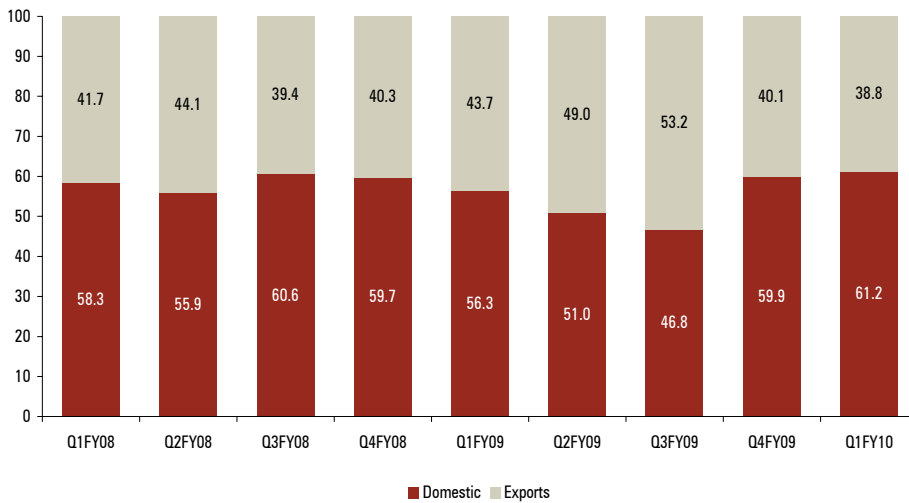
The company's realisation is improving on account of a changing product mix tilted more towards the high-margin value-added non-automotive segment. The contribution from the same increased to 32% in the reported quarter as against 28% in FY09. The improving realisation on a subdued volume performance is the key reason for our revised higher sales estimates.

Exhibit 3: Improving realisations


Source: Company, ICICIdirect.com Research

Export outlook remains bleak in the near term, domestic demand still lingering

Exhibit 4: Domestic and export contribution (%)

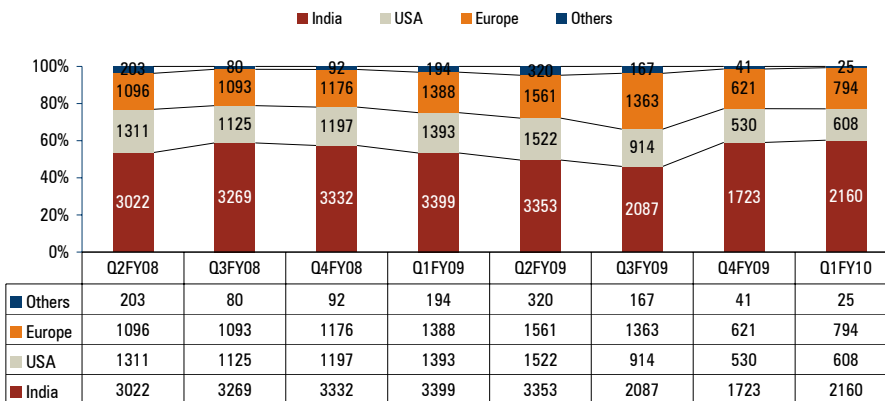


Source: Company, ICICIdirect.com Research

Geographical revenue break-up

In the current scenario, only the domestic market looks promising. In absolute revenue terms though all regions are showing de-growth, demand from the overseas market, mainly the US and Europe, has fallen steeply as compared to domestic demand.

Exhibit 5: Geographical revenue break up (Rs crore)

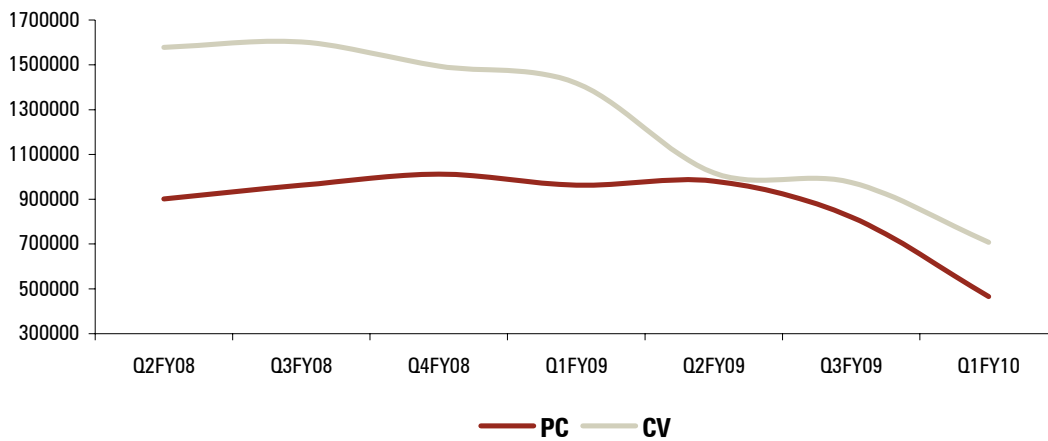


Source: Company, ICICIdirect.com Research

Overseas market, auto outlook

A) US demand

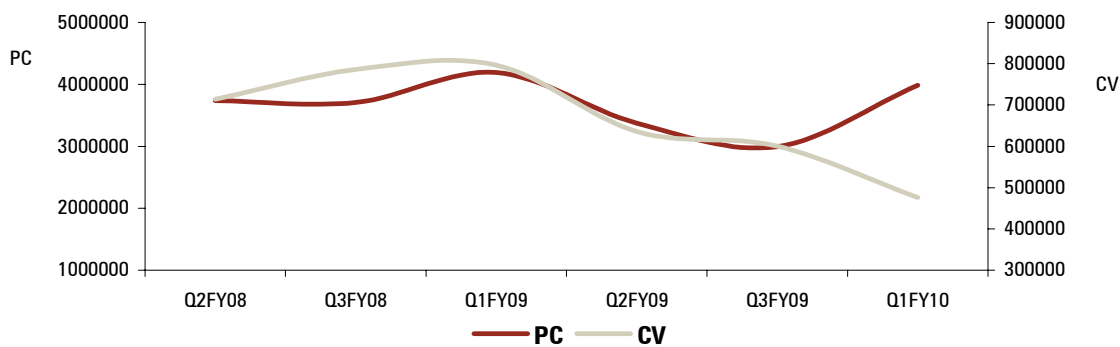
Exhibit 6: US auto demand (in numbers)



Source: Company, ICICIdirect.com Research

B) European demand

Exhibit 7: European auto demand (in numbers)



Source: Company, ICICIdirect.com Research

Other developments

A) A 51:49 joint venture with Alstom

BFL is likely to receive an approval from the Foreign Investment Promotion Board (FIPB) for a joint venture (JV) with Alstom. The JV will manufacture power plant equipment, basically turbines and generators and associated auxiliaries, for super critical power plants. BFL will supply the required components that go into this. The initial planned capacity of the JV would be 5,000 MW of equipment per year. The production will commence in 2012-2013. BFL expects the JV to generate Rs 7,000-8,000 crore revenue in four to five years, approximately Rs 1,600 crore per annum.

The capital investment by partners would be in the same proportion. However, the management has not yet disclosed the quantum of same.

B) Order intake from General Motors

BFL has bagged a multi-year contract worth \$25 million to supply crankshafts to one of GM's new vehicle platforms, which will be launched next year. The revenues from this contract are likely to flow in towards the end of next year.

This also has a positive indication that the US auto giant is out of the restructuring programme and its business revival would generate fresh demand for auto components.

Financial revision

We are revising our sales estimates and profit estimates downwards for FY10E on a consolidated basis. However, improving sales from a changing product mix would support higher sales and profit for FY11E.

Exhibit 8: Revised financials (Rs crore)

Revised financials						
Standalone	Old		New		%chg.	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Net sales	1,861.8	2,090.1	2,141.6	2,441.1	15.0	16.8
EBITDA	672.6	488.0	461.2	551.2	(31.4)	12.9
EBITDA margin	36.1	23.3	21.5	22.6	(40.4)	(3.3)
Net profit	50.3	115.4	132.4	215.9	163.3	87.1
EPS(Rs)	2.2	5.2	5.9	9.7	170.3	86.5

Consolidated	Old		New		%chg.	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Net sales	5,232.6	5,020.0	4,972.9	5,356.8	(5.0)	6.7
EBITDA	685.5	818.3	659.4	763.1	(3.8)	(6.7)
EBITDA margin	13.1	16.3	13.3	14.2	1.2	(12.6)
Net profit	120.2	171.4	99.2	202.9	(17.5)	18.4
EPS(Rs)	5.4	7.7	4.4	9.0	(18.4)	17.2

Source: Company, ICICIdirect.com Research

Valuations

Poor exports and a lingering domestic market provide a bleak outlook for the current year. However, we expect the same to improve next year. Furthermore, multi-year order intake of \$25 million from General Motors and proposed venture with Alstom for power equipment with revenue guidance of Rs 1,600 per annum post FY12 provides a silver lining to the dark cloud. The proposed revenue inflow and expected recovery in domestic and export demand in FY11 emphasises comparatively higher multiples for the company. Accordingly, we value the stock at 20x its consolidated FY11E EPS of Rs 9, to arrive at our target price of Rs 180. Since the stock has run up in the last few days, at the CMP of Rs 241 we reiterate our **UNDERPERFORMER** rating.

At the CMP, the stock is trading at 40.5x and 24.9x its standalone FY10E and FY11E EPS of Rs 5.9 and Rs 9.7 respectively. On consolidated basis, it discounts FY10E and FY11E EPS of Rs 4.4 and Rs 9 by 54.7x and 26.7x respectively.

Exhibit 9: Valuation

	Sales (Rs cr)	Sales Gr(%)	EPS (Rs)	EPS Gr(%)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)
FY09	4,774.3	2.6	1.1	(91.2)	211.2	13.5	3.6	9.6
FY10E	4,972.9	4.2	4.4	286.3	54.7	10.7	6.4	17.3
FY11E	5,356.8	7.7	9.0	104.6	26.7	9.3	17.8	21.7

Source: ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 10: Valuation matrix

					Sales				RoNW	
					(Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	(%)	RoCE (%)
Bajaj Auto										
Idirect Code	BAAUTO	CMP	1,335	FY09	8,696.2	44.0	30.4	19.1	38.9	36.8
		Target	1,027	FY10E	9,110.8	68.8	19.4	12.1	48.0	46.0
Mcap (Rs cr)	#REF!	% Upside	-23.1	FY11E	10,151.8	79.0	16.9	11.6	40.8	42.0
Escorts										
Idirect Code	ESCORT	CMP	75.5	FY08	2,051.5	1.3	57.9	7.0	1.3	6.2
		Target	31	FY09E	2,126.8	2.5	30.2	8.6	2.9	5.3
Mcap (Rs cr)	637.2	% Upside	-58.9	FY10E	2,398.1	4.1	18.3	6.9	4.6	6.5
Automotive Axle										
Idirect Code	AUTAXL	CMP	217	FY08	727.9	51.2	4.2	2.7	52.4	52.5
		Target	62	FY09E	261.2	1.0	207.1	13.2	0.9	3.4
Mcap (Rs cr)	328.1	% Upside	-71.4	FY10E	419.4	10.3	21.0	7.0	8.7	12.2
Balkrishna Industries										
Idirect Code	BALIND	CMP	342	FY09	1175.4	32.7	10.5	5.5	14.5	13.5
		Target	402	FY10E	1,299.2	100.7	3.4	5.1	36.0	26.8
Mcap (Rs cr)	661.1	% Upside	17.5	FY11E	1,497.2	110.4	3.1	3.0	30.7	28.8
Bharat Forge										
Idirect Code	BHAFOR	CMP	241	FY09	4,774.0	1.1	211.2	13.5	3.6	9.6
		Target	180	FY10E	4,972.9	4.4	54.7	10.7	6.4	17.3
Mcap (Rs cr)	5,367.1	% Upside	-25.3	FY11E	5,356.8	9.0	26.7	9.3	17.8	21.7
JK Tyres										
Idirect Code	JKIND	CMP	92	FY08	3,263.7	23.7	3.9	5.1	13.3	13.1
		Target	84	FY09E	3,051.0	8.9	10.3	6.9	4.4	7.7
Mcap (Rs cr)	377.7	% Upside	-8.7	FY10E	3,528.9	10.5	8.8	6.1	4.9	8.6
Subros										
Idirect Code	SUBROS	CMP	39	FY09E	695.9	5.5	7.0	5.2	7.4	11.7
		Target	12	FY10E	618.8	2.9	13.5	4.7	9.0	12.0
Mcap (Rs cr)	234.0	% Upside	-69.2	FY11E	633.9	3.0	13.2	3.9	8.6	11.9

EV/E signifies EV/EBITDA

Source: ICICIdirect.com Research

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