



Bharat Forge

Relative to sector: **Neutral**

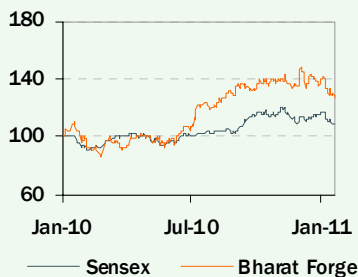
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 233 mn
Market cap	: Rs 83.2 bn
52 week high/low	: Rs.413/ Rs.232
Avg. daily vol. (6mth)	: 513,200 shares
Bloomberg code	: BHFC IB
Reuters code	: BFRG.BO

Shareholding (%)	Dec-10	QoQ chg
Promoters	: 42.1	0.0
FIs	: 14.1	(0.6)
MFs / UTI	: 5.6	0.9
Banks / FIs	: 13.2	(1.1)
Others	: 25.0	0.8

RIDING ON THE EXPORT RECOVERY

Bharat Forge Limited (BFL) reported a strong set of Q3FY11 nos with standalone revs of Rs 7.8 bn (↑53% YoY & 8% QoQ), EBITDA of Rs 1.9 bn (↑58% YoY & 8% QoQ) and adj. profit of Rs 826 mn (↑118% YoY and 21% QoQ). BFL recorded robust export revs at Rs 3.6 bn (↑31% QoQ), which have offset the sluggish domestic revs at Rs 4.2 bn (↓ 6% QoQ).

Key Highlights:

- ❑ **Volumes for Q3, at 48,116 tonnes, are up 4% QoQ and 33% YoY.** The improvement in volumes is mainly due to higher off-take in the export market. We understand that export products, having greater value add, offer higher profitability vs. domestic sales.
- ❑ **Non-Auto business, at Rs 2.9 bn (↑5% QoQ), continues to ramp-up on increased order flow.** The new non-auto facilities (heavy forgings) contributed Rs 1.25 bn of revenue in the quarter (vs Rs 1 bn in Q2).
- ❑ **While standalone EBITDA margin remained flat QoQ at 24%, EBITDA/kg continues to improve to Rs 39.2 (vs. 37.7 in Q2) on improving product mix and higher share of machining. With BFL expanding machining capacity by 30% in FY12, we expect profitability to improve further going ahead.**
- ❑ **Conso. sales were up by 11% QoQ to Rs 12.3 bn (↑ 50% YoY), with PBT (pre-adjustment) of Rs 1.2 bn.** Profitability of subsidiaries has improved to 5% (vs. 3% in Q2) on higher capacity utilizations.
- ❑ **During the qtr, BFL has spent Rs 50 mn towards wage settlement in BF-America (BFA) and Rs 30 mn towards shifting of facilities in Scottish Stampings.** The mgmt has indicated that the wage settlement in BFA is likely to result in a 30% wage reduction.

Improving product mix to continue. Upgrade to BUY

We expect BFL's product mix to remain robust with a continued recovery in exports and higher contribution from Non-auto business. Additionally, higher profitability in subs due to volume recovery and aggressive cost reduction is a positive trigger. We maintain our EPS est of Rs 12.5 for FY11E and Rs 21 for FY12E. While our TP of Rs 397 remains unchanged, we upgrade the stock to **BUY** due to the recent stock price correction.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	FDEPS (Rs)	YoY (%)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
2009	46,740	5,577	1,919	8.0	(36)	11.1	10.2	-	-
2010	32,616	3,385	153	0.6	(92)	0.9	3.7	-	-
2011E	48,320	8,248	3,067	12.5	1,872	16.3	15.2	25.2	11.8
2012E	57,102	10,793	5,203	21.3	70	21.2	19.6	14.9	8.7

Source: Company, ENAM estimates; Note: The no. of shares are adjusted for the recent QIP issue

Results update (Standalone)

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	7,770	5,078	53.0	7,187	8.1	29,160	18,045	61.6
EBITDA	1,886	1,191	58.4	1,741	8.3	7,492	4,365	71.6
Other income	126	92	37.3	86	46.4	400	323	23.7
PBITD	2,012	1,282	56.9	1,827	10.1	7,892	4,689	68.3
Depreciation	496	409	21.3	490	1.3	1,979	1,644	20.3
Interest	301	268	12.7	320	(5.7)	1,228	1,028	19.5
PBT	1,214	606	-	1,017	19.3	4,686	2,016	-
Tax	388	197	97.4	336	15.5	1,546	537	-
Adjusted PAT	826	409	-	681	21.2	3,139	1,480	-
Extra ordinary income/ (exp.)	-	-	-	-	-	-	(214)	-
Forex Gain/ (Loss)	-	(29)	-	-	-	-	-	-
Reported PAT	826	380	-	681	21.2	3,139	1,266	-
No. of shares (mn)	245	241	-	245	-	245	241	-
EBITDA margins (%)	24.3	23.4	-	24.2	-	25.7	24.2	-
PBITD margins (%)	25.9	25.3	-	25.4	-	27.1	26.0	-
EPS - annualized (Rs.)	13.5	6.8	98.5	11.1	21.2	12.8	6.1	-

Source: Company, ENAM Research; Note: The no. of shares are adjusted for the recent QIP issue of Rs 4.5 bn

Results update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net sales	12,227	8,134	50	11,027	11	48,320	32,616	48
PBITDA	2,232	1,362	64	1,942	15	8,682	3,896	123
Reported PAT	733	252	191	606	21	3,067	(634)	(584)
Fully diluted no. of shares (mn)	245	241		245		245	241	-
Reported EPS - annualized (Rs)	12.0	4.2	186	9.9	21	12.5	(2.6)	(576)

Source: Company, ENAM Research;

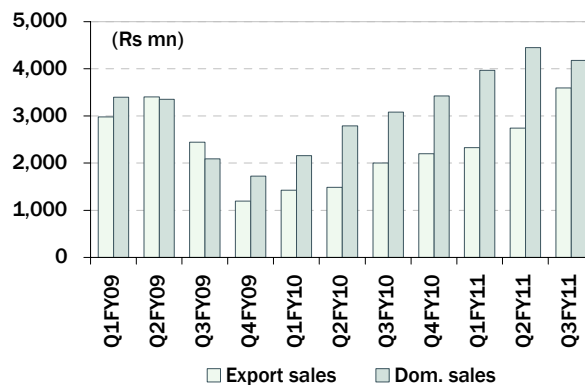
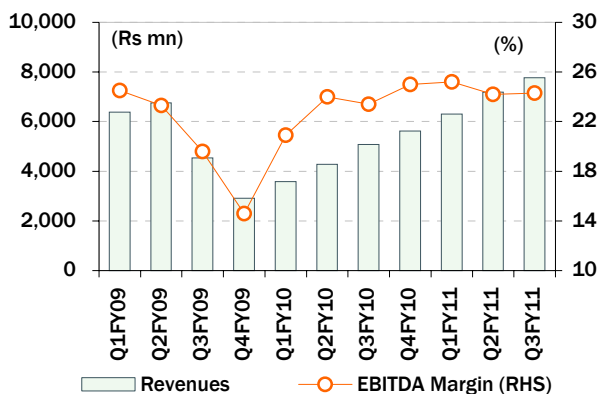
SOTP

SOTP	Per Share
Standalone EBITDA FY12	9,525
Multiple	9.0
EV	85,722
Subs EBITDA FY12	1,269
Multiple	4.0
EV	5,074
Investments (in power JVs)	5,000
Multiple P/BV	2.0
EV	10,000
Less: Conso Debt (FY12)	5,826
Total	397
No. of Shares	239

Note: We have assumed warrant conversion and hence, increased the no. of shares to 239 mn

BFL (Standalone): Revenue & margin trends

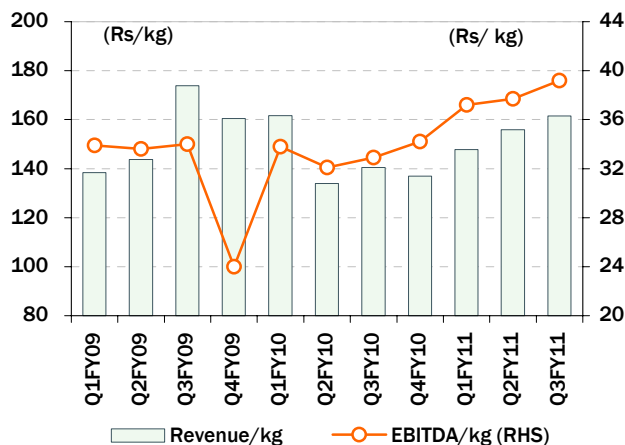
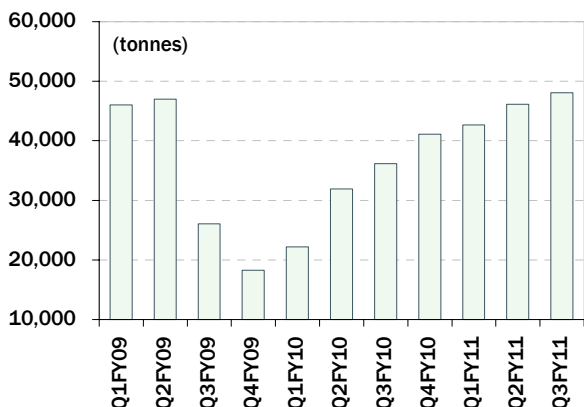
Exports back to peak levels



Source: Company, ENAM Research

Standalone: Tonnage increasing steadily...

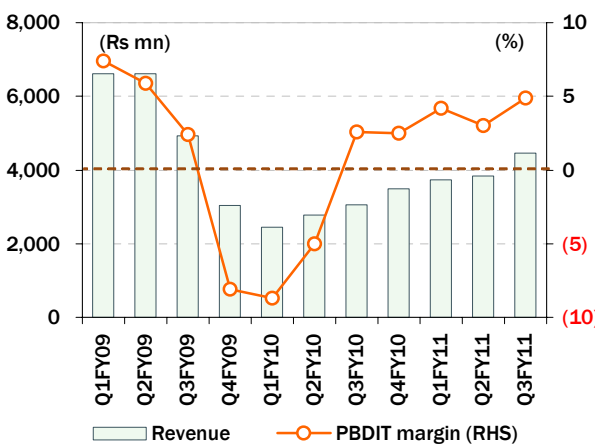
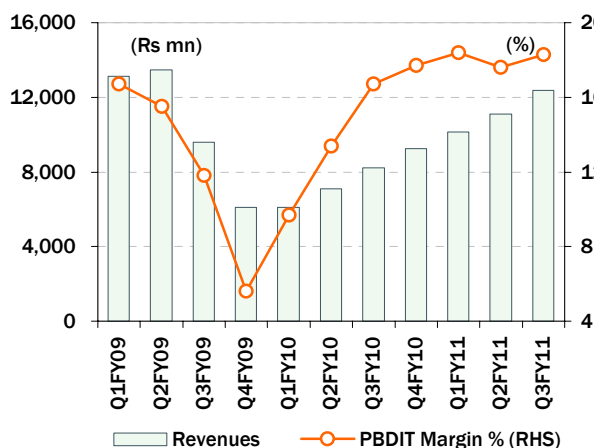
...with improving EBITDA per kg trend



Source: Company, ENAM Research

BFL: Conso revenues and profitability

Subs: Margins improve, losses continue to decline



Source: Company, ENAM Research

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