

Bharat Forge

Riding on the Export Recovery

Bharat Forge Limited (BFL) reported a strong set of Q3FY11 nos with standalone revs of Rs 777 cr (↑53% YoY & 8% QoQ), EBITDA of Rs 189 cr (↑58% YoY & 8% QoQ) and adj. profit of Rs 826 cr (↑118% YoY and 21% QoQ). BFL recorded robust export revs at ~Rs 360 cr (↑31% QoQ), which have offset the sluggish domestic revs at Rs 4,200 cr (↓ 6% QoQ).

Q3FY11 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 290 cr (↑5% QoQ), continues to ramp-up on increased order flow. The new non-auto facilities (heavy forgings) contributed Rs 125 cr of revenue in the quarter (vs Rs 100 cr 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 1,230 cr (↑ 50% YoY), with PBT (pre-adjustment) of Rs 120 cr. Profitability of subsidiaries has improved to 5% (vs. 3% in Q2) on higher capacity utilizations.
- During the qtr, BFL has spent Rs 5 cr towards wage settlement in BF-America (BFA) and Rs 3 cr towards shifting of facilities in Scottish Stampings. The management 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 cr)	EBITDA (Rs cr)	Adj. PAT (Rs cr)	FDEPS (Rs)	YoY (%)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
2009	4,674	558	192	8	(36)	11.1	10.2	-	-
2010	3,262	339	15.3	0.6	(92)	0.9	3.7	-	-
2011E	4,832	825	307	12.5	1,872	16.3	15.2	23.4	11.8
2012E	5,710	1,079	520	21.3	70	21.2	19.6	13.8	8.7

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

CMP (Rs)	333
Target price (Rs)	397
Potential upside	19%

Stock data

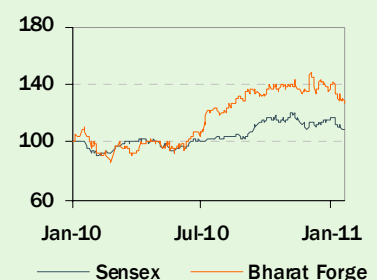
No. of shares (cr)	23.3
FV (Rs)	2/-
Market cap (Rs cr)	7,760
52 week high/low (Rs)	413/ 232
Avg. daily vol.* (shrs)	5,14,430
BSE Code	500493
NSE Code	BHARATFORG
Bloomberg code	BHFC IB
Reuters Code	BFRG.BO

* BSE & NSE 6 monthly

Shareholding (%)

	Dec-10	QoQ Chg
Promoter	42.1	0.0
FII's	14.1	(0.6)
MFs / UTI	5.6	0.9
Banks / Fis	13.2	(1.1)
Others	25.0	0.8

Relative performance



Source: Cline, ENAM Direct Research

Results update (Standalone)

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	777	508	53	719	8.1	2,916	1,805	61.6
EBITDA	189	119	58.4	174	8.3	749	437	71.6
Other income	12.6	9.2	37.3	8.6	46.4	40	32.3	23.7
PBIDT	201	128	56.9	183	10.1	789	469	68.3
Depreciation	49.6	40.9	21.3	49	1.3	198	164	20.3
Interest	30.1	26.8	12.7	32	(5.7)	123	103	19.5
PBT	121	60.6	-	102	19.3	469	202	-
Tax	38.8	19.7	97.4	33.6	15.5	155	53.7	-
Adjusted PAT	82.6	40.9	-	68.1	21.2	314	148	-
Extra ordinary income/ (exp.)	-	-	-	-	-	-	(21.4)	-
Forex Gain/ (Loss)	-	(2.9)	-	-	-	-	-	-
Reported PAT	82.6	38	-	68.1	21.2	314	127	-
No. of shares (cr)	24.5	24.1	-	24.5	-	24.5	24.1	-
EBITDA margins (%)	24.3	23.4	-	24.2	-	25.7	24.2	-
PBIDT margins (%)	25.9	25.3	-	25.4	-	27.1	26	-
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 450 cr

Results update (Consolidated)

(Rs cr)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net sales	1,223	813	50	1,103	11	4,832	3,262	48
PBITDA	223	136	64	194	15	868	390	123
Reported PAT	73.3	25.2	191	60.6	21	307	(63)	(584)
Fully diluted no. of shares (cr)	24.5	24.1		24.5		24.5	24.1	-
Reported EPS - annualized (Rs)	12	4.2	186	9.9	21	12.5	(3)	(576)

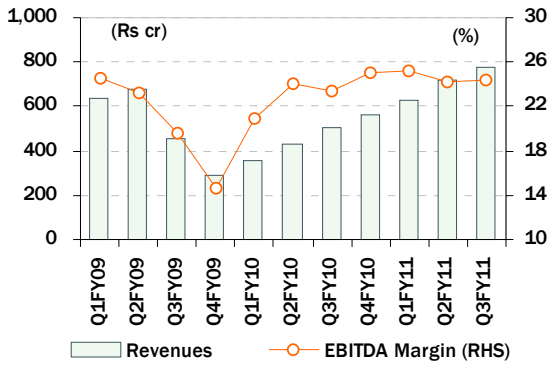
Source: Company, ENAM Research.

SOTP

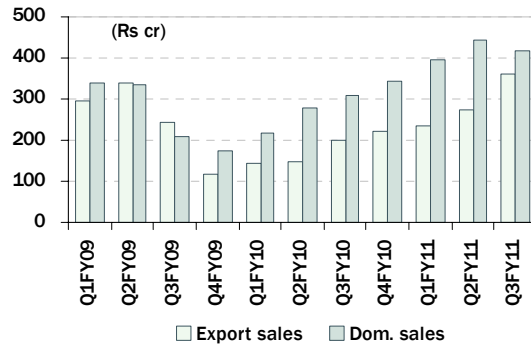
SOTP	Per Share
Standalone EBITDA FY12	953
Multiple	9.0
EV	8,572
Subs EBITDA FY12	127
Multiple	4.0
EV	507
Investments (in power JVs)	500
Multiple P/BV	2.0
EV	1,000
Less: Consolidated Debt (FY12)	583
Total	397
No. of Shares	23.9

Note: We have assumed warrant conversion and hence, increased the no. of shares to 23.9 cr

BFL (Standalone): Revenue & margin trends

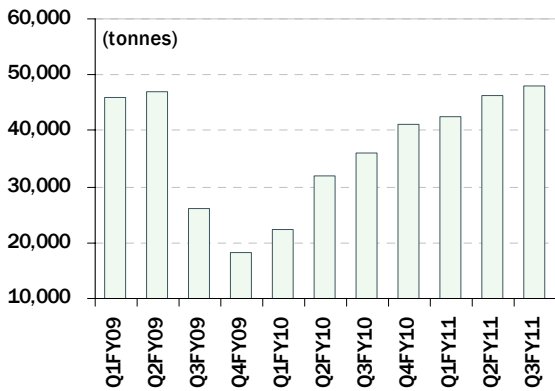


Exports back to peak levels

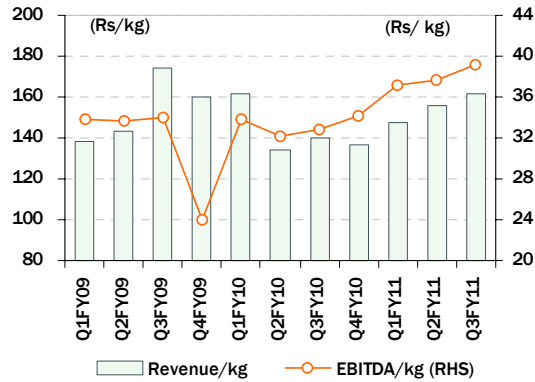


Source: Company, ENAM Research

Standalone: Tonnage increasing steadily...

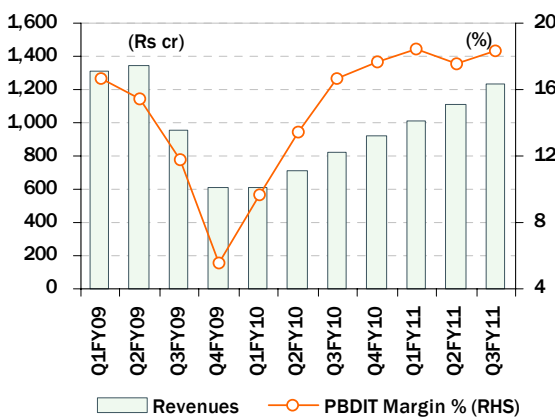


...with improving EBITDA per kg trend

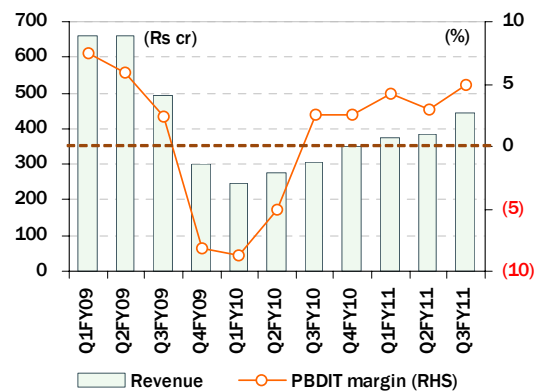


Source: Company, ENAM Research

BFL: Conso revenues and profitability



Subs: Margins improve, losses continue to decline



Source: Company, ENAM Research

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