

Bharat Forge

Relative to sector: **Neutral**

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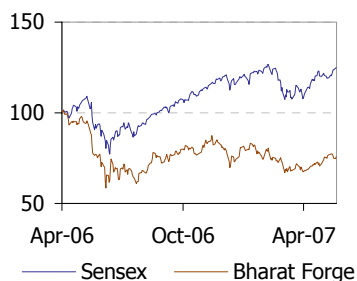
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 222mn
Market cap	: Rs.75.8bn
52 week high/low	: Rs.396/ Rs.221
Avg. daily vol. (6mth)	: 632,700 shares
Bloomberg code	: BHFC IN
Reuters code	: BFRG.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 39.4	3.3
FII's	: 18.7	(4.1)
MFs / UTI	: 3.5	1.0
Banks / FIs	: 9.7	0.0
Others	: 28.9	(0.2)

NON-AUTO BUSINESS TO DRIVE GROWTH

Bharat Forge Limited (BFL) has declared revenues of Rs 5.16bn (17.7% YoY), EBIDTA of Rs 1.2bn (18% YoY) and PAT of Rs 643mn (21.3% YoY) during Q4FY07. Consolidated revenues and profits stood at Rs 10.9bn (up 16% YoY) and Rs 800mn (up 16% YoY) respectively. *(For variance analysis, please refer to pg2).*

Key highlights:

Asset utilization to ramp-up

BFL has indicated that their current capacity utilization stands at 76% for forging and at 87% for machining facilities respectively. BFL expects capacities to be almost fully utilized during the course of year. We expect the operating margin for domestic operations to remain stable.

Non-Automotive business: BFL has planned an investment of Rs 4.9bn over the next 18-24 months and is setting up new facilities at Barmati and Pune to increase capacity for the non-auto business. Capital output ratio is likely at 2x as it will leverage on existing infrastructure. BFL expects to focus on aerospace, marine, locomotive and mining and energy sectors to drive growth.

From the current level of 17%, BFL expects the non-auto business to contribute ~40% of revenues over the next 3-4 years. The margin for this segment is expected to be better than for domestic auto-operations (25-26% of EBIDTA margin).

Integration of key overseas subsidiaries

Capacity utilization for their China operations stands at 38% for FY07. BFL has indicated that they expect China operations to achieve break-even during the course of FY08 backed by increased capacity utilization.

Valuations

At CMP of Rs 340, the stock trades at 21x FY08E and 18.3x FY09E consolidated FDEPS of Rs 15.1 and Rs 18.4 respectively. We are downgrading the stock to sector **Neutral** as the current valuations factor in most of the near-term positives. Our target price of Rs 331 is based on 18x FY09E earnings of Rs 18.4.

Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	Rep PAT (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	FDEPS (Rs.)	YoY (%)	RoE (%)	RoCE (%)	P/E (x)	EV/EBIDTA (x)
2006	29,520	5,261	2,505	2,539	-	10.8	4	29.2	26.5	41.1	19.4
2007	41,030	6,563	2,934	3,055	-	12.7	17	22.6	22.4	24.8	11.4
2008E	47,280	7,567	3,629	3,629	15.8	15.1	19	23.1	23.4	22.6	10.4
2009E	54,421	8,934	4,437	4,437	20.4	18.4	22	24.2	25.0	18.5	8.7

Source: *Consensus broker estimates, Company, ENAM estimates; Note: Adj. PAT is adjusted for non-recurring items

Results update (Standalone)

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	5,161	4,384	17.7	4,771	8.2	21,133	17,891	18.1
EBIDTA	1,243	1,053	18.1	1,239	0.3	5,374	4,676	14.9
Other income	222	144	54.0	162	37.2	700	809	(13.4)
PBIDT	1,465	1,197	22.4	1,401	4.6	6,074	5,484	10.8
Depreciation	267	214	24.5	253	5.7	1,150	998	15.2
Interest	234	155	50.9	215	8.4	800	821	(2.6)
PBT	965	828	16.5	933	3.4	4,124	3,665	12.5
Tax	322	298	8.1	303	6.2	1,361	1,189	14.5
PAT	643	530	21.3	630	2.1	2,763	2,477	11.6
No. of shares (mn)	241	235	-	241	-	241	241	-
EBIDTA margins (%)	24.1	24.0	-	26.0	-	25.4	26.1	-
PBIDT margins (%)	28.4	27.3	-	29.4	-	28.7	30.7	-
EPS - annualized (Rs.)	10.7	9.0	18.2	10.5	2.1	11.5	10.3	11.6

Source: Company, ENAM Research

Results update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net sales	10,870	9,375	16.0	10,174	6.8	47,280	41,030	15.2
EBIDTA	1,726	1,520	13.6	1,670	3.3	7,567	6,563	15.3
PAT	800	688	16.3	770	4.0	3,629	2,934	23.7
No. of shares (mn)	241	235	-	241	-	241	241	-
EPS - annualized (Rs.)	13.3	11.7	13.4	12.8	4.0	15.1	12.2	23.7

Source: Company, ENAM Research

BFL Q4FY07: Reported nos. vs. expectations

(Rs mn)	Reported	Forecast	Variance (%)	Comment
Net sales	5,161	5,057	2	<i>In-line</i>
EBITDA margin	24.1%	25.7%	(160bps)	<i>EBIDTA margin lower on account of higher raw material costs (46.5% of sales v/s est of 46%) and greater incidence of other expenses (6.9% of sales v/s our est. of 5.5%).</i>
EBIDTA	1,243	1,300	(4.3)	
PAT	643	656	1.9	<i>In-line</i>
PAT margin	12.5%	13.0%	50bps	<i>Higher than expected other income and depreciation.</i>

Source: Company, ENAM Research

Other Highlights:**US operations**

While the truck market in the US is experiencing some slowdown in volume off-take, BFL expects demand to pick up in H2FY08. BFLs' de-risking strategy of moving away from CV chassis components has worked out efficiently, with CV chassis contributing only 53% in Q4FY07 vs. 72% in FY06. We believe that this is a step in the right direction, and will reduce the cyclicity of the US operations.

US sales break-up

(Rs mn)	Quarter ended			Composition (%)		
	Mar-07	Mar-06	% Chg	Mar-07	Mar-06	% Chg
CV chassis	2,600	2,295	13.3	53.0	72.1	(26.6)
CV engine comp	969	459	111.1	19.7	14.4	36.9
PC Engine	656	99	562.6	13.4	3.1	329.6
Non-Auto	682	328	107.9	13.9	10.3	34.8
Total	4,907	3,181	54.3	100	100	-

Source: Company, ENAM Research

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