

Bharat Forge

Rating: ◀▶

Target price: ▲

EPS: ▲

CMP	Rs. 280	Absolute	Buy
Target	Rs. 340	Relative	Outperform

Non-auto , exports momentum and higher utilisation in China JV to catapult earnings growth

Bharat Forge (BFL) reported standalone revenue growth of 6% qoq, EBITDA margin decline of 63bps to 23.7% and PAT growth of 9% qoq. Consol revenue grew by 3% qoq to Rs. 15bn, 4% EBITDA growth and 3% PAT growth on a sequential basis.

Management indicated that the decline in domestic auto sales by 16% sequentially is due to inventory correction at the OEM side. Thus in the ensuing quarters, given the expected uptick in CV volumes, we continue to expect volume traction in the domestic business. Also, continued traction in exports to North America with the ongoing replacement of class 8 trucks and continued strong non-auto growth (expect 46% growth in FY12 against 37% growth in 1HFY12) is expected to drive overall revenue growth. We expect domestic revenues to grow at 14% and exports to grow by 31% for FY12. Non-auto which contributed 40% of sales in 2QFY12 is expected to contribute around 50% in the next two quarters. While we expect the standalone margin to decline on a sequential basis due to 2.5% impact on DEPB, we believe margins will be better in 4QFY12 on a sequential basis on higher ramp-up in non-auto and exports growth.

Overseas subsidiaries grew at 23% YoY to Rs 6.5bn and margin at 5.9% for 2QFY12, 170bps YoY expansion. The current utilisation across the overseas subsidiaries is expected to be between 55-60% for 3QFY12 (in-line with 2QFY12 levels), however expect margin uptick in 4QFY12 against the backdrop of increase in utilisation in China JV, and wholly owned subsidiaries in Germany and Sweden. Management continues to indicate that higher utilisation in overseas subsidiaries in FY13 will provide margin leverage.

We expect consol net sales to grow by 14% CAGR for FY11-13E to Rs. 69.5bn and expect margin expansion to 18.2% by FY13 against 16.5% in 1HFY12 (FY11 margin at 15.4%). Against the backdrop of margin expansion, we expect earnings growth to be at 22% CAGR for FY11-13E to Rs. 5.46bn leading to an EPS of Rs. 20.4.

Valuations: We value the stock on an SOTP basis at a target price of Rs. 340. We value the core business (ex-power JV) at 16x FY13 consol EPS at Rs 327 and value its JV with Alstom and NTPC at Rs. 13 per share on FY13E cumulative investments of Rs. 3.5bn. We reiterate our Buy-Outperform rating on the stock.

Key risks

- Lower than expected non-auto business and exports traction to impact our earnings estimates and rating on the stock.

Other takeaways

- One time cost of Rs. 20-25mn in the subsidiary business in 2QFY12 impacted PBT
- Energy costs for the quarter impacted 2QFY12.
- Capex for FY12 is expected at Rs. 2.45-2.5bn and the capex spent as on 1HFY12 is Rs.1bn.

Financial summary (consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj. PAT (Rs. mn)	Adj. EPS (Rs.)	P/E(x)	EV/EBITDA(x)
FY11	50,873	7,851	3,002	11.2	25.3	10.4
FY12E	61,000	10,311	4,390	16.4	17.3	7.6
FY13E	69,513	12,622	5,464	20.4	13.9	6.6

2QFY12 Update

Date	Nov 10, 2011
Market Data	
SENSEX	17362
Nifty	5221
Bloomberg	BHFC IN
Shares o/s	233mn
Market Cap	Rs. 66bn
52-wk High-Low	Rs. 413-252
3m Avg. Daily Vol	Rs. 112.5mn
Index member	BSE 500

Latest shareholding (%)

Promoters	42.0
Institutions	31.0
Public	27.0

Stock performance (%)

	1m	3m	12m
BHFC	6.3%	-0.5%	-26.8%
Sensex	6.3%	2.8%	-15.7%
BSE Auto	6.7%	7.3%	-11.1%

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Quarterly Standalone Financial Results

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Standalone financial results

Rs. mn\Period	30-Sep-11	30-Sep-10	yoy Growth	30-Jun-11	qoq Growth	FY12E	FY13E	yoy Growth
Revenue	9,100	7,187	26.6%	8,577	6.1%	35,201	41,897	19.0%
Raw Material	4,116	3,307	24.5%	3,851	6.9%	15,738	18,292	16.2%
Employee cost	633	489	29.4%	591	7.2%	2,510	3,016	20.2%
Other cost	2,197	1,649	33.2%	2,051	7.1%	8,480	9,962	17.5%
Total Expenditure	6,946	5,446	27.6%	6,493	7.0%	26,728	31,271	17.0%
EBITDA	2,154	1,741	23.7%	2,084	3.3%	8,474	10,626	25.4%
<i>Margin %</i>	23.7%	24.2%	<i>-56 bps</i>	24.3%	<i>-63 bps</i>	24.1%	25.4%	<i>129 bps</i>
D&A	539	490	10.0%	517	4.3%	2,139	2,162	1.1%
EBIT	1,615	1,251	29.1%	1,567	3.0%	6,334	8,464	33.6%
Other income	207	86	141.1%	147	40.6%	753	813	8.0%
Net Interest exp (inc)	310	320	-3.2%	300	3.1%	1,031	884	-14.3%
PBT	1,512	1,017	48.6%	1,414	6.9%	6,056	8,393	38.6%
Tax provision	448	336	33.4%	440	1.8%	1,816	2,627	44.7%
Tax rate %	29.6%	33.0%	<i>-338 bps</i>	31.1%	<i>-148 bps</i>	30.0%	31.3%	<i>132 bps</i>
PAT (Reported)	1,064	681	56.1%	974	9.2%	4,240	5,766	36.0%
PAT (Adjusted)	1,064	681	56.1%	974	9.2%	4,240	5,766	36.0%
<i>Adjusted PAT Margin %</i>	11.7%	9.5%	<i>221 bps</i>	11.4%	<i>33 bps</i>	12.0%	13.8%	<i>172 bps</i>
EPS (Reported)	4.6	2.9	56.1%	4.2	9.2%	15.8	21.5	36.0%
EPS (Adjusted)	4.6	2.9	56.1%	4.2	9.2%	15.8	21.5	36.0%

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Business Overview

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Key estimate revision						
	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	58,725	61,000	3.9%	67,654	69,513	2.7%
EBITDA	9,994	10,311	3.2%	12,026	12,622	5.0%
Margin (%)	17.00%	16.9%	-10 bps	17.80%	18.2%	36 bps
PAT	4,294	4,390	2.2%	5,422	5,464	0.8%
PAT Margin	7.30%	7.2%	-10 bps	8.00%	7.9%	-14 bps
EPS	16	16.4	2.5%	20.3	20.4	0.5%

All figures in Rs. mn, except EPS, which is in Rs.

Overseas subsidiaries capacity utilisation (%)			
Geography	FY11	FY12E	FY13E
Europe	42%	62%	65%
US	32%	50%	55%
China	45%	55%	60%

Source: Spark Capital, Company

Overseas subsidiaries revenue and margins (%)				
Figures in Rs. mn	FY10	FY11	FY12E	FY13E
Revenue	14,712	21,400	25,827	27,615
EBITDA	(985)	648	1,866	1,995
EBITDA margin (%)	-6.7%	3.0%	7.2%	7.2%
PBT	(2,452.5)	(150.6)	883.0	740.3
PAT	(2,034.8)	(182)	732.9	614.4

Source: Spark Capital, Company

Geography-wise revenue break-up			
Particulars	Q4 FY11	Q1 FY12	Q2 FY12
India	4,636	4,636	4,784
USA	1,577	1,577	1,906
Europe	1,697	1,697	2,075
Asia Pacific	307	307	335
Total	8,217	8,217	9,100

Source: Company, Spark Capital

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Financial Summary (consolidated)

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Abridged Financial Statements (Consolidated)				
Rs. mn	FY10	FY11	FY12E	FY13E
Profit & Loss				
Revenues	33,276	50,873	61,000	69,513
Manufacturing & Other Expenses	29,891	43,022	50,689	56,891
EBITDA	3,385	7,851	10,311	12,622
Depreciation	2,451	2,548	3,071	3,388
EBIT	934	5,303	7,241	9,233
Net Interest Exp / (inc)	1,303	1,529	1,787	1,986
Profit Before Tax	-645	4,368	6,459	8,336
Tax	119	1,402	1,966	2,753
Less: Minority interest	(132)	67	104	120
Adj. Net Profit	8	3,002	4,390	5,464
Balance Sheet (Rs. mn)				
Shareholders Equity	14,642	19,529	21,778	26,296
Loan funds	22,527	18,950	17,875	17,875
Minority interest	783	1,542	1,542	1,542
SOURCES OF FUNDS	38,911	41,342	42,516	47,033
Net block	24,073	24,593	23,962	23,354
Investments	2,737	3,668	3,668	3,668
Capital WIP	1,987	3,069	3,538	4,032
Current assets, loans & advances	24,171	27,641	35,809	42,902
Current liabilities & provisions	14,062	18,075	24,907	27,369
Net Current Assets	10,109	9,566	10,902	15,533
APPLICATION OF FUNDS	38,911	41,342	42,516	47,033
Cash Flows (Rs. mn)				
Cash flow s from operations	5,422	3,407	8,075	8,266
Capex	(1,350)	(5,089)	(2,440)	(2,781)
Cash flow s from investments	(4,161)	(4,858)	(2,909)	(3,274)
Cash flow s from financing	(168)	(1,416)	(3,216)	(947)
Free cashflow	4,072	-1,682	5,635	5,485
Cash generated during the year	1,093	(2,867)	1,951	4,045

Key metrics				
	FY10	FY11	FY12E	FY13E
Growth ratios				
Revenues	-30.3%	52.9%	19.9%	14.0%
EBITDA	-39.3%	131.9%	31.3%	22.4%
PAT	-99.7%	38013.4%	46.2%	24.5%
Margins				
EBITDA	10.2%	15.4%	16.9%	18.2%
EBIT	2.8%	10.4%	11.9%	13.3%
PAT	0.0%	5.9%	7.2%	7.9%
Leverage & WC ratios				
Debt to equity (x)	1.5	1.0	0.8	0.7
Current ratio (x)	1.7	1.5	1.4	1.6
Debtor days (Sales)	56	55	58	0
Inventory days (COGS)	147	150	155	0
Creditor Days (COGS)	173	175	180	0
Working capital days	30	30	33	0
Performance & turnover ratios				
RoACE	2.8%	9.0%	12.0%	13.8%
RoAE	0.1%	17.6%	21.3%	22.7%
Total asset turnover (x)	0.6	0.9	1.0	2.0
Fixed asset turnover (x)	0.8	1.2	1.3	1.4
Working capital turnover (x)	2.9	5.2	6.0	5.3
Valuation metrics				
Current price (Rs.)	283			
Shares outstanding (mn)	233	233	233	233
Market capitalisation (Rs. mn)	65,974	65,929	65,929	65,929
Enterprise value (Rs. mn)	82,524	81,769	78,744	83,804
EV/EBITDA (x)	24.4	10.4	7.6	6.6
Adj. Per-share earnings (Rs.)	0.0	11.2	16.4	20.4
Price-earnings multiple (x)	na	25.3	17.3	13.9
Dividend yield (%)	0.35%	1.24%	1.24%	1.24%

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Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
11-Aug-11	288	337	Buy	OPF
24-May-11	305	337	Add	UPF
25-Jan-11	353	344	Reduce	UPF
10-Jan-11	365	344	Reduce	UPF
14-Dec-10	381	344	Reduce	UPF

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