

## Bharat Forge (BHAFOR)

Rs 323.3

### Forging a powerhouse to surge ahead...

**Bharat Forge is one of the leading forging majors of the world supplying to markets in Europe, Asia and US with best in the class chassis and engine components. The company has been nimble enough to leverage its forging expertise to change according to adverse global economic conditions with the help of measures like diversification into non-automotive segment and cost rationalisation. The continuance of strong growth of the domestic commercial vehicle (CV) segment along with the tempered recovery in the US market would help improve automotive momentum. The company expects the non-automotive segment to gain traction and contribute 40% to the topline with the power sector. This will present a Rs 5000-crore per year opportunity in which it expects to gain a significant share with the Alstom JV coming on ground in FY12.**

#### Domestic CV segment on growth track

The recovery in the domestic CV segment triggered by strong economic activity has led to an improvement in capacity utilisation. The breakeven levels have been brought down to 50% utilisation due to cost rationalisation measures. The company has ~90% market share in products such as axle beams, knuckles and crankshafts. Thus, with sales growth the cash flow situation is expected to be healthy.

#### Non-automotive business to fuel future progress

The company has started aggressive diversification into sectors like power and oil & gas as it intends to leverage its technological expertise and huge forging capacities. The contribution of the segment to sales at present is around 30%. The company intends to push it towards 40% with sectors like power showing visibility of earnings from FY12-13. The company would see strong cash flows as it would not have to incur any further major capital expenditure in comparison to other competitors who are running short of capacities.

### Valuation

Strong domestic market sales and slow recovery in the US market would continue to be the immediate term sales driver. However, with increased visibility of the power venture we can see a strong improvement in cash flows. At the CMP of Rs 277, the stock is trading at 27.0x FY11E EPS of Rs 10.3 and 18.0x FY12E EPS of Rs 15.4. We recommend Bharat Forge as our **Pick of the Week** with a potential upside of 10%.

#### Exhibit 1: Key Highlights (Consolidated)

(Rs Crore)	FY07	FY08	FY09	FY10
Net Sales	3857.369	4295.126	4774.345	3348.8
EBITDA	645.19	693.09	523.40	338.5
EBITDA margin (%)	16.7	16.1	11.0	10.1
Net Profit	290.6	301.5	58.3	63.4
EPS	13.1	13.6	2.6	2.8

Source: Company, ICICIdirect.com Research

#### Rating matrix

Target	:	Rs 355.6
Target Period	:	3 months
Potential Upside	:	10%

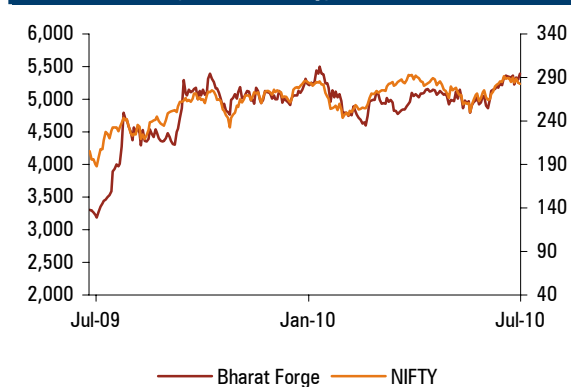
#### Stock data

Mcap	Rs7,199.9 crore
Debt (FY10)	Rs 1,852.8 crore
Cash (FY10)	Rs 366.7 crore
EV	Rs8,559.2 crore
52 week H/L	Rs 335.5 / 126.5
Equity cap	Rs 44.5 crore
Face value	Rs 2
MF Holding	17.6%
FII Holding	12.1%

#### Relative return

Returns (%)	1M	3M	6M	12M
Bharat Forge	24.6	19.4	16.1	144.6
Mahindra Forgings	15.7	-11.4	-20.1	123.8
Hilton Forging	17.6	-10.7	-17.1	40.3

#### Price movement (Stock vs. Nifty)



#### Analyst's name

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**Technical Outlook**

The stock had witnessed a sharp rally after hitting a low of Rs 69.55 in late January 2009. The stock rallied to a high of 307.55 levels in mid-October 2009 representing a more than 340% price appreciation in a span of just 10 months.

After the substantial rally the stock went into a long consolidation phase and had been largely oscillating between the levels of Rs 295-300 on the higher side and Rs 245-238 on the lower side for almost nine months.

The smart gains in the current week have seen the share price recording a strong break-out above the sideways consolidation range on the weekly chart. It looks set to resume its uptrend in the short to medium term.

The break-out has been accompanied by a sharp increase in trading as well as delivery volumes, suggestive increased participation in the stock. Among momentum oscillators, the weekly RSI as well as MACD remain in a rising trajectory above the respective trigger lines and indicate further upsides in the stock.



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