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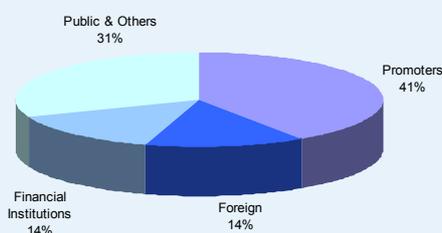
Price: **Rs.268**
12M Target Price: **Rs.306**
% Upside / (Downside) **14%**

Stock details

BSE Code	500493
NSE Code	BHARATFORG
Reuters Code	BFRG BO
Bloomberg Code	BHFC IN
Market Cap (Rs bn)	60
Free Float (%)	59
52-wk Hi/Lo (Rs)	390 / 215
Avg Daily Vol (BSE)	49,512
Avg Daily Vol (NSE)	190,703
Shares o/s (mn) FV Rs 2	223

Source: Reliance Money Research

Shareholding pattern (30th June 2008)



Source: Reliance Money Research

Stock Performance (Rel to sensx)



Source: Capitaline

Bharat Forge Ltd

We recommend a HOLD

Bharat Forge Ltd (BFL) has surprised with impressive results. Despite the slowdown in domestic and US auto markets, the company has reported 28% growth in net sales during Q1FY09. BFL is foraying into the growing capital goods sector and also venturing in Aerospace, Windmill sectors for its forging products. Due to strong demand and shortage of forging products for capital goods products, we believe its JV with NTPC would have good market potential. BFL is expecting 40% revenue from the non automotive business by FY2012 and we expect that this segment is going to be the key growth driver for the company going forward. Currently we have not factored any upside from its JV with NTPC in our earnings estimates which could give a positive surprise in near future.

At Current market price of Rs.268, stock trades at 17x on FY09E and 14x on FY10E consolidated earnings. We believe apart from geographical de-risking strategy, BFL's strategy of non-auto revenue target of 40% would be also be the growth driver for the stock. We remain positive on the stock and recommend a HOLD with target price of Rs.306.

Strong growth in standalone revenue and EBITDA

BFL's net sales on a standalone basis for Q1FY09 registered a growth of 28% y-o-y to Rs.6.3 bn. Growth in topline was on account of improved realizations as the company had passed on the price hike to its customers during the quarter. Apart from this strong export realization on account of other currencies moving against the rupee led to higher growth in topline. Exports during the quarter went up 33% y-o-y and if adjusted for the currency movement, exports for the quarter went up by 26% y-o-y. On a consolidated basis Q1FY09 net sales grew by 24% y-o-y to Rs.13.1bn. Europe and other regions have reported growth of 49% and 143% y-o-y during the quarter.

BFL's EBITDA for the quarter jumped impressively by 54% y-o-y to Rs.1,560mn aided by improvement in sales realizations and favorable currency movement during the quarter especially in Euro and USD. Consolidated EBITDA for Q1FY09 registered a growth of 40% y-o-y to Rs.2,046mn

Adjusted PBT up by 71% y-o-y in Q1FY09

BFL reported translation forex loss of Rs.693mn on its outstanding FCCBs and due to which the reported net profit of BFL came down by 59% y-o-y to Rs.266mn. But before adjusting translation forex loss of Rs.693mn, its PBT went up by 71% y-o-y to Rs.1,108mn. Adjusted net profit on a consolidated basis of the company which reported a fall of 49% y-o-y to Rs.410mn.

Focus on non auto segment to continue

BFL has guided for ~40% revenue from non auto business and is foraying into areas like power, aerospace and windmill sectors. The company is incurring ~Rs.3.5-4bn for its non auto forging capacities. Its JV with NTPC would give it additional foothold in this space. In FY09E the company is going to commence its new plant which will make non-auto forging at Baramati. We remain positive on these developments.

Financials Summary

	FY07A	FY08A	FY09E	FY10E
Net Sales	41,783	46,523	52,374	61,514
EBITDA margin %	15.5	15.1	15.0	15.2
Net Profit	2,906	3,015	3,752	4,608
EPS (Rs)	13.1	13.5	15.5	19.0
CEPS (Rs)	21.8	22.8	26.2	30.9
EV/EBITDA	12.3	9.9	8.9	7.2
ROE %	21.1	19.2	18.8	18.3
ROCE %	19.2	16.6	17.8	20.5
P/E (x)	20.5	19.8	17.3	14.1
Market cap/Sales (x)	1.7	1.3	1.2	1.1

Source: Company / Reliance Money Research

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Q1FY09 Performance - Standalone

Rs Mn

Depreciating rupee and higher sales realizations drove the net sales for Q1FY09

	Q1FY08	Q1FY09	YoY (%)	FY 07	FY 08	YoY (%)
Net Sales	4,968.7	6,373.6	28.3	18,644.2	21,965.0	17.8
Other Income	200.1	120.9	(39.6)	783.9	623.4	(20.5)
Total Income	5,168.9	6,494.5	25.6	19,428.1	22,588.4	16.3
Total Expenditure	3,956.5	4,814.0	21.7	13,968.3	16,743.4	19.9
Operating Profits	1,012.2	1,559.6	54.1	4,676.0	5,221.6	11.7
OPM (%)	20.4	24.5	409.7	25.1	23.8	(130.8)
Interest	233.6	195.4	(16.4)	821.1	1,049.9	27.9
Depreciation	329.0	377.4	14.7	998.0	1,389.4	39.2
PBT	649.7	1,107.7	70.5	3,640.7	3,405.7	(6.5)
Provision for tax	334.9	148.7	(55.6)	1,188.5	1,233.9	3.8
Adj. PAT	314.8	959.0	204.6	2,452.2	2,171.8	(11.4)
Extraordinary Items	333.3	(693.4)	(308.0)	(42.6)	563.6	(1,422.1)
Reported PAT	648.1	265.6	(59.0)	2,409.6	2,735.4	13.5
Equity Capital	445.4	445.4	-	445.4	445.4	-
EPS (Rs)	2.9	1.2	(59.0)	10.8	12.3	13.5

Source: Company

Translation forex loss of Rs.693 on re-statement of FCCBs impacted reported net profit

Domestic market reported growth of 24% y-o-y in Q1FY09

BFL's net sales on a standalone basis for Q1FY09 registered a growth of 28% y-o-y to Rs.6.3 bn. Growth in topline was on account of improved realizations as the company had passed on the price hike to its customers during the quarter. Apart from this strong export realization on account of other currencies moving against the rupee led to higher growth in topline. Exports during the quarter went up 33% y-o-y and if adjusted for the currency movement, exports for the quarter went up by 26% y-o-y.

EBITDA grew impressively by 54% y-o-y

Sales in the domestic market reported a growth of 24% y-o-y. The strong growth in the domestic market was supported by non auto segment which continued to report strong momentum and has helped BFL in offsetting the slowdown in domestic auto industry. We believe that the rising interest rates, credit tightening and rising fuel prices will continue to impact the auto industry and the non auto business will continue perform which would support growth in the overall sales.

Strong growth in EBITDA aided by favorable currency movement

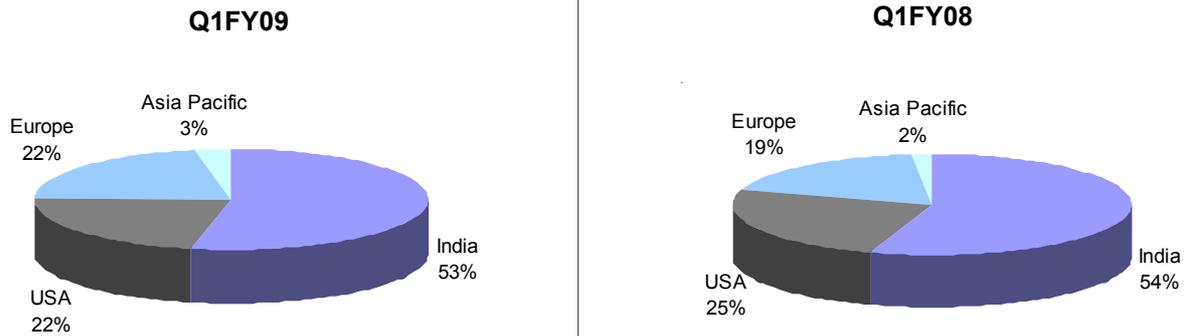
BFL's EBITDA for the quarter jumped impressively by 54% y-o-y to Rs.1,560mn aided by improvement in sales realizations and favorable currency movement during the quarter especially in Euro and USD. Both Euro and USD have shown positive movement against Rupee by 7.3% and 7.7% respectively. BFL's EBITDA margins jumped by 410bps y-o-y to 24.5% as against 20.4% in Q1FY08.

Adjusted PBT up by 71% y-o-y

Reported PAT declined by 59% y-o-y

BFL reported translation forex loss of Rs.693mn on its outstanding FCCBs and due to which the reported net profit of BFL came down by 59% y-o-y to Rs.266mn. But before adjusting translation forex loss of Rs.693mn, its PBT went up by 71% y-o-y to Rs.1,108mn. The company has transferred unrealized loss consequent to foreign currency fluctuation in respect of hedging instruments, to hedge future exports, of Rs.255mn to hedging reserve.

BFL's Standalone Geographical Distribution of Income



Source: Reliance Money Research

Q1FY09 Performance (Consolidated)

Rs Mn

Rs Mn	Q1FY08	Q1FY09	YoY (%)	FY 07	FY 08	YoY (%)
Net Sales	10,613.0	13,113.1	23.6	41,783.0	46,522.8	11.3
Other Income	206.0	125.1	(39.3)	924.4	781.8	(15.4)
Total Income	10,819.0	13,238.2	22.4	42,707.4	47,304.6	10.8
Total Exp	9,147.6	11,067.0	21.0	35,319.4	39,478.2	11.8
Operating Profits	1,465.4	2,046.1	39.6	6,463.6	7,044.6	9.0
OPM (%)	13.8	15.6	179.6	15.5	15.1	(32.7)
Interest	266.7	253.5	(4.9)	1,067.0	1,269.4	19.0
Depreciation	524.7	601.0	14.5	1,881.1	2,270.6	20.7
PBT	880.0	1,316.7	49.6	4,440.0	4,286.4	(3.5)
Provision for tax	409.0	213.5	(47.8)	1,528.6	1,589.4	4.0
Adj. PAT	471.0	1,103.2	134.2	2,911.4	2,697.0	(7.4)
Extraordinary Items	333.0	(693.4)	(308.2)	(76.7)	211.2	(375.2)
Reported PAT	804.0	409.8	(49.0)	2,834.7	2,908.1	2.6
Equity Capital	445.4	445.4	-	445.4	445.4	-
EPS (Rs)	18.1	9.2	(49.0)	63.6	65.3	2.6

Source: Company

BFL's Q1FY09 consolidated (excluding China) revenues grew by 24% y-o-y to Rs.13,113mn as compared to Rs.10,613mn in the same quarter last year. Europe and other regions have reported growth of 49% and 143% y-o-y during the quarter. But US region has reported slower growth of 14% mainly due to slowdown witnessed in the region. EBITDA for Q1FY09 registered a growth of 40% y-o-y to Rs.2,046mn. Higher depreciation costs (up by 15% y-o-y) and translation foreign exchange loss on FCCBs of Rs.693mn impacted the adjusted net profit of the company which reported a fall of 49% y-o-y to Rs 410mn.

Other Highlights of conference call

- BFL's overall debt including FCCB currently stands at Rs.14bn, out of which 90% are in the form of FCCBs.
- BFL currently has a cash of around Rs.4.5-5bn on its books.
- BFL's American Subsidiary was impacted by the slowdown in the US economy. Due to the slowdown the company's US plant was shut for 40 days because one of its customers shutting its production.
- BFL's Baramati plant has commenced its trial production during the quarter and its Mundhwa plant will undergo trial run during the month of August 2008. Final production of Baramati plant would commence by December 2008., while the production for Mundhwa is likely to commence in Q4FY09.
- BFL has planned a capex of Rs.3.5-4bn for its Baramati and Mundhwa plants.
- The company management is expecting to generate Rs.8-10bn from its non- forging capacity of 100,000 tonnes at Baramati and Mundhwa.
- Exports in Europe have continued the strong momentum in Q1FY09.

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Europe and other regions reported strong growth rates

The company is planning to raise Rs.4000mn via non-convertible debenture with detachable warrants in order to fund its non automotive capacity

BFL has forayed into the manufacturing forging products for power equipment sector by forming a 51:49 JV with NTPC.

BFL is the largest exporter of auto components from India.

BFL's de-risking strategy has helped the company in compensating slowdown in domestic CV industry

Additional fund raising to fund capital expenditure

The company is planning to raise Rs.4bn via non-convertible debenture with detachable warrants in order to fund its non automotive capacity. BFL's previous capex plans for its non automotive capacity at Mundhwa and Baramati plants are on schedule. BFL's Baramati plant has commenced its trial production during the quarter and its Mundhwa plant will undergo trial run during the month of August 2008. Final production of Baramati plant would commence by December 2008., while the production for Mundhwa is likely to commence in Q4FY09. The company will also invest additional Rs.2bn in Baramati to setup a large ring manufacturing capacity for the non auto business

JV with NTPC

BFL has forayed into the power equipment manufacturing sector by forming a 51:49 JV with NTPC. The Joint Venture will initially be engaged in manufacturing forgings, castings, casings, fittings and high pressure piping's required for Power and other industries, Balance of Plant equipment for the power sector etc. and will induct technology related strategic partners where ever needed. The Company would also manufacture other power plant equipments & machinery, in due course. The company has planned an Investment of Rs.2bn spread over a period of 2-3 years.

Business Background

Bharat Forge Limited (BFL) is the flagship company of the USD 2.1 billion Kalyani Group. It is engaged in manufacture of forged steel and is the largest exporter of auto components from India. BFL today has emerged as the second largest forging manufacturer in the world with manufacturing operations spread across ten locations and six countries – 3 in India, 3 in Germany and one each in Sweden, Scotland UK, USA & China. BFL commenced its operations in 1966 and today with the acquisition of various companies all across the globe bharat forge has created a niche for itself in the global arena. These acquisitions have helped BFL in developing a good customer base along with access to new technology. BFL virtually caters to almost all OEMs Including the top 5 passenger car and commercial vehicle manufacturer

Business Outlook and Valuation

Despite the slowdown in the US & Indian CV market, BFL has posted impressive performance for Q1FY09 mainly due to strong revenues generated from the exports segment. Indian CV industry in Q1FY09 registered 9% y-o-y growth and 18% q-o-q growth, while the US M&HCV industry registered 19% decline owing to slowdown in the US economy. BFL's de-risking strategy of diversifying itself in terms of location and products has helped the company in posting stable numbers thereby offsetting the poor performance of domestic and US auto Industry.

The company has increased its focus towards the non automotive business which again is a mainly due to the Company's de-risking strategy. BFL is foraying into the growing capital goods sector and also venturing in Aerospace, Windmill sectors for its forging products. Due to strong demand and shortage of forging products for capital goods products, we believe its JV with NTPC would have good market potential. BFL is expecting 40% revenue from the non automotive business by FY2012 and we expect that this segment is going to be the key growth driver for the company going forward. Currently we have not factored any upside from its JV with NTPC in our earnings estimates which could give a positive surprise in near future.

Consolidated Financials

Year Ended March	FY09E	FY10E
Net Sales (Rs Mn)	52,374	61,514
EBITDA (Rs Mn)	7,878	9,378
EBITDA (%)	15.0	15.2
PAT (Rs Mn)	3,752	4,608
EPS (Rs)	15.5	19.0
P/E (x) @ Rs.268	17.3	14.1

Source: Company / Reliance Money Research

We recommend a HOLD with a target price of Rs.306

At Current market price of Rs.268, stock trades at 17x on FY09E and 14x on FY10E consolidated earnings. We believe apart from geographical de-risking strategy, BFL's strategy of non-auto revenue target of 40% would be also be the growth driver for the stock. We remain positive on the stock and recommend a HOLD with target price of Rs.306.

Profit & loss statement (Rs mn)

Year to Mar	FY07	FY08A	FY09E	FY10E
Net Sales	41,783.0	46,522.8	52,374.4	61,513.8
% Growth	40.6	11.3	12.6	17.5
EBIDTA	6,463.6	7,044.6	7,877.9	9,378.1
% Growth	36.0	9.0	11.8	19.0
Other Income	924.4	781.8	870.0	850.0
Interest	1,067.0	1,269.4	561.8	401.8
Depreciation	1,881.1	2,270.6	2,577.1	2,873.5
PBT	4,439.9	4,286.4	5,609.0	6,952.9
% Growth	13.3	(3.5)	30.9	24.0
Tax	1,528.6	1,589.4	1,879.0	2,329.2
Adj PAT	2,911.3	2,697.0	3,730.0	4,623.6
% Growth	16.2	(7.4)	38.3	24.0
E/o, Minority Interest	(5.5)	318.3	22.1	(15.7)
Reported PAT	2,905.8	3,015.3	3,752.1	4,607.9
% Growth	16.5	3.8	24.4	22.8
Dividend (%)	779.3	779.5	846.8	846.8
EPS (Rs)	13.1	13.5	15.5	19.0
BVPS (Rs)	66.9	74.3	96.3	111.4

Balance sheet (Rs mn)

Year to Mar	FY07	FY08A	FY09E	FY10E
Share Cap	545.4	445.4	483.9	483.9
Reserves	14,352.6	16,095.6	22,813.4	26,463.2
Networth	14,898.0	16,541.0	23,297.2	26,947.1
Minority Interest	315.3	701.9	679.8	695.5
Secured loans	5,950.5	6,809.1	6,809.1	6,809.1
Unsecured loans	11,945.5	9,734.8	4,734.8	1,734.8
Total loans	17,896.0	16,543.9	11,543.9	8,543.9
Total Liability	33,109.3	33,786.9	35,520.9	36,186.5
Net Block	19,448.8	23,602.6	22,233.8	21,060.3
Goodwill	-	4.5	4.5	4.5
Technical Know-how	-	4.2	4.2	4.2
Investments	2,073.2	2,988.4	2,988.4	2,988.4
Deffered Tax Assets	(1,106.7)	(1,176.3)	(1,176.3)	(1,176.3)
Inventory	6,142.1	7,271.0	8,247.2	9,706.9
Debtors	6,567.4	6,717.9	7,565.2	9,397.9
Cash balance	9,389.3	3,181.5	3,110.1	3,278.0
Other CA	5,587.3	7,611.0	8,568.3	10,063.4
Current Liabilities	11,246.7	11,552.9	13,843.4	16,509.6
Provisions	3,747.8	4,865.0	2,181.0	2,631.2
NCA	12,691.6	8,363.6	11,466.3	13,305.4
Total Assets	33,109.3	33,786.9	35,520.9	36,186.5

Ratio Analysis

Year to Mar	FY07	FY08A	FY09E	FY10E
OPM %	15.5	15.1	15.0	15.2
NPM %	7.0	6.5	7.2	7.5
ROE %	21.1	19.2	18.8	18.3
ROCE %	19.2	16.6	17.8	20.5
Int. Cover (x)	5.2	4.4	11.0	18.3
D/E (x)	1.2	1.0	0.5	0.3
Asset Turnover (x)	1.4	1.3	1.4	1.5
Debtors Days	56.6	52.0	52.0	55.0
Inventory Days	111.1	118.8	120.0	120.0
Valuation ratios				
P/E (x)	20.5	19.8	17.3	14.1
P/CF per share (x)	12.3	11.8	10.2	8.7
EV/EBIDTA (x)	12.3	9.9	8.9	7.2
EV/Sales (x)	1.9	1.5	1.3	1.1
Mkt Cap/Sales(x)	1.7	1.3	1.2	1.1
CEPS (Rs)	21.8	22.8	26.2	30.9
P/ BV (x)	4.0	3.6	2.8	2.4

Source: Reliance Money Research

Cash Flow Statement (Rs mn)

Year to Mar	FY07	FY08A	FY09E	FY10E
PAT	2,911.3	2,804.1	3,752.1	4,607.9
Depreciation	1,881.1	2,270.6	2,577.1	2,873.5
Change in WC	(470.0)	(1,879.8)	(3,218.5)	(1,639.7)
Operating CF	4,322.4	3,194.9	3,110.8	5,841.8
Capex	(6,851.3)	(6,573.1)	(1,208.4)	(1,700.0)
Misc Exp	-	449.5	-	-
Investing CF	(6,851.3)	(6,123.6)	(1,208.4)	(1,700.0)
Dividends	(779.3)	(911.9)	(973.8)	(973.8)
Equity	-	(100.0)	4,000.0	-
Debt	6,303.0	(1,352.1)	(5,000.0)	(3,000.0)
Investments	462.2	(915.2)	-	-
Financing CF	5,985.9	(3,279.1)	(1,973.8)	(3,973.8)
Net Change	3,457.0	(6,207.8)	(71.4)	168.0
Opening Cash	5,932.3	9,389.3	3,181.5	3,110.1
Closing Cash	9,389.3	3,181.5	3,110.1	3,278.0

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Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

Reliance Money:

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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