

RESULTS REVIEW

Share Data

Market Cap	Rs. 82 bn
Price	Rs. 368.35
BSE Sensex	20,869.78
Reuters	BFRG.BO
Bloomberg	BHFC IN
Avg. Volume (52 Week)	0.2 mn
52-Week High/Low	Rs. 389.75/254
Shares Outstanding	222.7 mn

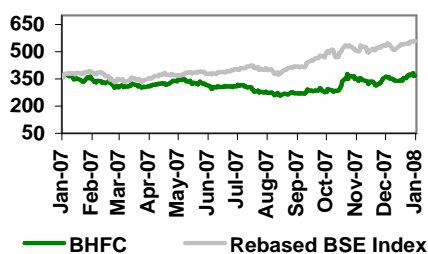
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	14.2	17.4
+/- (%)	5.3%	22.6%
PER (x)	25.9x	21.1x
EV/ Sales (x)	1.9x	1.6x
EV/ EBITDA (x)	12.7x	10.4x

Shareholding Pattern (%)

Promoters	40
FIs	17
Institutions	15
Public & Others	28

Relative Performance



Bharat Forge Limited

Buy

Revenue diversification bearing fruits

Bharat Forge Limited (BFL), the world's second largest forge manufacturing company, reported better than expected numbers for Q2'08. Standalone net sales went up 25% yoy driven by a robust growth of 41.3% in exports. BFL was able to put up a strong performance despite the continued sluggishness in the Indian automotive market, weakening dollar, and the US slowdown. The growth was led by a successful ramp up of engine components in the European markets as well as the Company shifting its focus from the US market towards the European and Asian-Pacific markets. However, on a consolidated basis, the growth in net sales was restricted to 7.7% yoy to Rs. 10.5 bn due to the muted performance of the Company's wholly-owned subsidiaries.

The Company has also been able to address the issue of margin erosion through a mix of better operational efficiency and a series of cost reduction initiatives. As a result, EBITDA margin improved 43 bps yoy to 17%.

We have upgraded our EBITDA estimates for FY08E and FY09E by 3% each to factor in the operational efficiency and cost reduction measures undertaken by the Company. At the current price of Rs. 368.35, the stock is trading at 25.9x FY08E and 21.1x FY09E earnings estimates. We continue to remain positive on the future prospects of BFL on the back of its de-risking business model and shift in the revenue stream. Thus, we reiterate our Buy rating on the stock with a revised target price of Rs. 424 for FY09E.

Result Highlights

Though the Indian auto industry is currently witnessing a slowdown, net

Key Figures (Consolidated)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
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(Figures in Rs. mn, except per share data)

Net Sales	9,709	10,614	10,452	7.7%	(1.5%)	19,586	21,065	7.6%
EBITDA	1,607	1,466	1,776	10.5%	21.1%	3,198	3,242	1.4%
Adj. Net Profit	742	804	791	6.6%	(1.6%)	1,546	1,596	3.2%

Margins(%)

EBITDA	16.6%	13.8%	17.0%			16.3%	15.4%	
NPM	7.6%	7.6%	7.6%			7.9%	7.6%	

Per Share Data (Rs.)

Adjusted EPS	3.2	3.6	3.5	9.0%	(1.7%)	6.8	7.1	4.6%
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Exports pacing up the growth momentum

European and Asia Pacific region contributing around 50% of the exports

sales of BFL for Q2'08 jumped 25% yoy to Rs. 5.6 bn from Rs. 4.5 bn in Q2'07. The strong performance was driven by a robust growth of 41.3% yoy in exports and 13.6% yoy in domestic sales. BFL's operations had not been severely affected with the slowdown of the auto industry in the US and depreciating dollar, due to the diversification of the Company's operations in the other growing non-dollar dominated global markets like Europe and Asia-Pacific region.

Exports registered a substantial growth of 41.3% yoy to Rs. 2.6 bn led by higher sales in the European and the Asia-Pacific markets. Sales in the European market rose by a whopping 96.8% yoy to Rs. 1.1 bn owing to the ramp up of the production for medium & heavy-duty engine components, coupled with enhanced sales of medium & heavy commercial vehicle. In addition, the Asia-Pacific region recorded the highest growth of 351.1% yoy on the back of the progressive correction in the inventory build-up in China over the past two quarters. While the European and the Asia-Pacific markets excelled, the US markets witnessed a massive slowdown in the M&HCV segment. As a result, BFL witnessed a subdued growth of 5.3% yoy to Rs. 1.3 bn in the US operations. However, the fall in the M&HCV segment was offset by the successful ramp up of the production of passenger vehicles engine components.

Geographical Revenue Distribution of BFL

Net Sales (Rs. Mn)	Q2'07	Q1'08	Q2'08	YoY%	QoQ%
Domestic*	2,660	2,733	3,022	13.6%	10.6%
Exports					
USA	1,245	1,223	1,311	5.3%	7.2%
Europe	557	934	1,096	96.8%	17.3%
Asia Pacific	45	80	203	351.1%	153.8%
Total Exports	1,847	2,237	2,610	41.3%	16.7%
Total net sales	4,507	4,970	5,632	25.0%	13.3%

*Excluding excise duty

Subdued performance of the wholly-owned subsidiaries

Despite a strong performance on a standalone basis, consolidated net sales for the quarter witnessed a sluggish growth of 7.7% yoy to Rs. 10.5 bn due to the weak performance of the Company's wholly-owned subsidiaries. Consolidated EBITDA increased 10.5% yoy to Rs. 1.8 bn and

EBITDA margin improved 43 bps yoy to 17%. Margin improved as a result of better operational efficiency and the cost reduction efforts undertaken by the Company. Consolidated adj. net profit went up 6.6% yoy to Rs. 791 mn, however, net profit margin remained flat at 7.6%. The growth in adj. net profit was led by a higher other income of Rs. 260.7 mn (up 35.1% yoy), partially offset by increase in depreciation and interest expense.

Key Risks

Key risks to our rating include:

- Spiralling steel prices
- Despite major diversification in the revenue stream, appreciating rupee against major global currencies remains a cause for concern
- Prolonged sluggishness in the auto industry

Outlook

During the quarter, BFL posted a robust growth in exports led by shift in the revenue stream as well as the de-risking business model adopted by the Company. While the change in revenue stream helped BFL in increasing the share of non-dollar denominated revenues, the de-risking policy insulated it from market fluctuations.

Though the auto industry continued to face the subdued growth in Q2'08, the macroeconomic factors still remain positive. The demand drivers in the short term are affected more due to localized reasons such as sudden increase in the interest rates in India as well as change in emission norms in the US. Therefore, we expect the volumes to pick up in the US truck market from early 2008 while in the Indian auto market from the third quarter of FY08E. With early signs of recommencement of demand from China and the inventory build up getting progressively corrected, we expect BFL FAW JV also to start contributing to the bottom line by FY09E.

Moreover, the non-automotive expansion is also on track and will protect the Company against the current slowdown being witnessed by the auto sector. BFL is expanding the capacity by installing non-automotive manufacturing facilities at Baramati and Pune and incurring a capital expenditure of

Diversifying strategies paying off

Non-Automotive segment to propel the future growth

Rs. 3.5 bn. Capacity expansion includes the commissioning of a closed die forging hammer (80 mtr tonne) & machining line at Baramati and a large open forge press line (4,000 tonne) at Pune. BFL expects to commence the trial production of the parts between April and September 2008 and eventually start the production in Q4'09 and Q1'10 at Baramati and Pune, respectively.

Considering the long-term growth prospects of BFL, we estimate the Company's net sales to grow at a CAGR of 15.7% for FY07-FY09E.

At the current price of Rs. 368.35, the stock is trading at 25.9x FY08E and 21.1x FY09E earnings estimates. We maintain our Buy rating with a revised target price of Rs. 424 for FY09E.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
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(Figures in Rs. mn, except per share data) (FY07-09E)

Net Sales	19,934	30,189	41,783	47,451	55,965	15.7%
EBITDA	4,240	5,235	6,494	7,150	8,712	15.8%
Adj. Net Profit	2,015	2,510	3,008	3,167	3,884	13.6%

Margins(%)

EBITDA	21.3%	17.3%	15.5%	15.1%	15.6%
NPM	10.1%	8.3%	7.2%	6.7%	6.9%

Per Share Data (Rs.)

Adjusted EPS	9.3	10.9	13.5	14.2	17.4	13.6%
PER (x)	29.6x	40.7x	27.3x	25.9x	21.1x	

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