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Market Data

52-week range (INR): 307 / 69
Share in issue (mn): 222.7
M cap (INR bn/USD mn): 65.5 / 1,434.5
Avg. Daily vol. BSE ('000): 230.9

Share Holding Pattern (%)

Promoters	:	44.0
MFs, FIs & Banks	:	17.5
FIIIs	:	11.7
Others	:	26.8

* Promoters pledged shares : Nil
(% of share in issue)

Exchange losses play havoc

- Bharat Forge availed the option of capitalising/deferring foreign exchange difference on long-term monetary items provided by Accounting Standard 11. Consequently:
 - Exchange loss aggregating INR 1.4 bn was capitalised and will be depreciated over the balance life of related assets. Additional depreciation pursuant to capitalisation of exchange loss aggregates INR 47.5 mn.
 - Exchange loss aggregating INR 340.2 mn (net of amortisation aggregating INR 185.4 mn) was accumulated in "foreign currency monetary translation difference account" and will be recognised over the next two financial years.
 - Exchange gain aggregating INR 403.7 mn, recognised last year, was deducted from general reserves.
 - Gains aggregating INR 105.9 mn were transferred to the "foreign currency monetary translation difference account" and would be re-recognised over the next two fiscals.
 - Gains aggregating INR 297.8 mn were deducted from fixed assets.

As a result, net profit for the year was higher by INR 1.7 bn, ~2.9x the reported PAT.

- Exchange losses recognised during the year aggregate INR 1.0 bn (FY08: gain, INR 211.2 mn), 1.7x the reported PAT.
- Foreign currency denominated loans (at the standalone level) aggregate INR 13.5 bn, ~74.6% of standalone loan book. There are no derivative instruments outstanding as on March 31, 2009. With the INR appreciating by ~10% since March 2009, a significant part of these losses can be recouped.

Accounting policy highlights

- No provision is made for redemption premium on FCCBs. Consequently, net profit for the year is higher by INR 1.2 bn, ~ 2.1x the reported PAT; net worth is higher by INR 2.7 bn, ~ 16.6% of net worth, comprising:
 - Redemption premium pertaining to FY09: INR 814.9 mn.
 - Exchange loss on redemption premium pertaining to earlier years aggregating INR 412.8 mn.
 - Redemption premium pertaining to earlier years aggregating INR 1.5 bn.
- Diminution in the value of investments aggregating INR 24.2 mn is adjusted in reserves and surplus, instead of being charged in the income statement.
- A Germany-based subsidiary migrated to IFRS from German GAAP in CY08. However, the impact of such migration is not material and resulted in lower PAT (by INR 15.0 mn).
- Bharat Forge adopted AS 30 during the year. However, as at march 31, 2009, there are no derivative contracts outstanding and the balance of hedging reserve is nil.

Old outstanding debtors increase 58.4%; provisions multifold

- Debtors, outstanding for more than six months and considered good, increased 58.4% to INR 1.3 bn (FY08: INR 815.4 mn) despite aggregate debtors decreasing 20.9% to INR 5.3 bn (FY08: INR 6.7 bn) and average receivable days declining by 11.7% to 46 days sales (FY08: 52.1 days sales).
- Provisions for doubtful debts and advances increased to INR 97.8 mn (FY08: INR 5.6 mn), ~ 8.8% of profit before tax and 1.3% of total receivables and advances.

Other financial highlights

- Un-hedged foreign currency exposure stands at INR 13.3 bn (liabilities, net), ~ 81.1% of net worth.
- Disputed claims against the parent company (statutory and others) stand at INR 773.2 mn, ~ 4.7% of net worth.

Subsidiaries dampen results

- Subsidiaries have incurred substantial losses of ~INR 450.2 mn, which is a cause for concern.
- Auditors of two subsidiary companies, Bharat Forge America (USA) and Bharat Forge Scottish Stampings (Scotland), have drawn attention to the appropriateness of going concern assumption used for preparing their respective financial statements.
 - **Bharat Forge America, USA**
 - In CY08, it reported net loss of INR 264.3 mn on turnover of INR 1.7 bn.
 - Net worth stands at INR 35.9 mn versus total liabilities of INR 1.1 bn.
 - Despite continuous losses, the subsidiary's management is confident about the company's future. Also, an impairment review carried out by the management did not indicate any impairment loss.
 - In the parent company's standalone books, investment in Bharat Forge America stands at INR 730.4 mn. Details regarding loans granted or guarantees provided are not available.
 - **Bharat Forge Scottish Stampings, Scotland**
 - In CY08, it reported net loss of INR 423.1 mn on turnover of INR 2.6 bn mn, including exceptional expenditure aggregating INR 298.9 mn, comprising a settlement claim of INR 247.3 mn and redundancies cost of INR 51.6 mn.
 - Net worth has eroded and stands at INR (192.5) mn versus total liabilities of INR 1.5 bn.
 - Subsidiary's future largely depends on support from the parent company, which even its management considers uncertain.
 - Details regarding investment in Bharat Forge Scottish Stampings, loans granted or guarantees provided are not available.

Summary group financials

(INR mn)

Particulars	Standalone		Subsidiaries		Consolidated	
	FY08	FY09	FY08	FY09	FY08	FY09
Sales	21,965	20,576	24,558	27,165	46,523	47,740
Total income	22,849	21,064	24,667	27,364	47,516	48,427
EBITDA	5,228	4,454	1,705	1,092	6,934	5,545
EBITDA margin (%)	23.8	21.6	6.9	4.0	14.9	11.6
Depreciation	1,391	1,497	881	1,023	2,273	2,519
Interest	1,050	1,004	219	288	1,269	1,291
PAT	2,736	1,033	279	(450)	3,015	583
ROACE	16.4	11.0	9.4	0.7	14.5	8.3

Source: Company annual report, Edelweiss research

Note: *Total investments in subsidiaries in the books of parent's standalone accounts stand at INR 3.7 bn.

Profitability analysis (ROE analyser)

ROE analyser analyses profitability on the scale of operating efficiency and capital allocation efficiency (detailed concept explained in Annexure A). We have analysed the profitability of Bharat Forge for FY08 and FY09; results and key findings are given below:

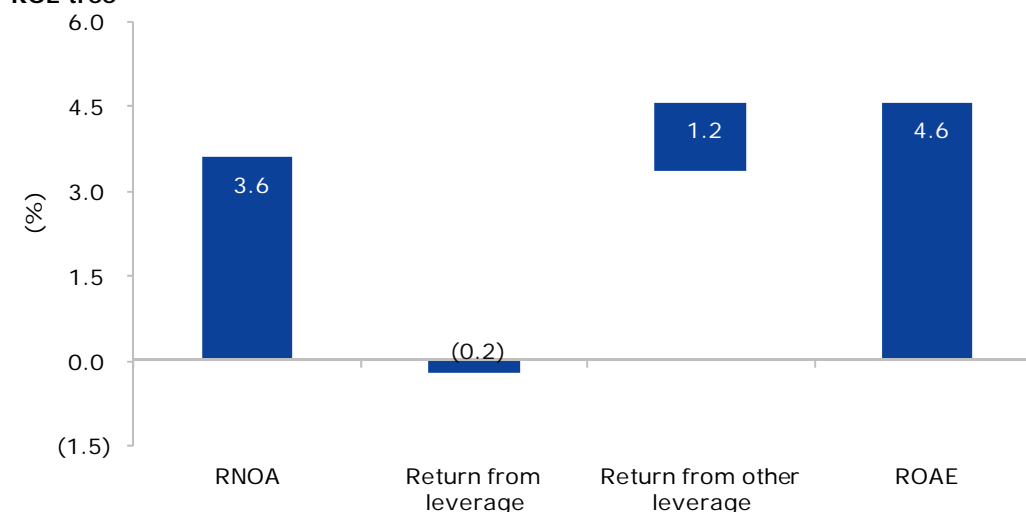
ROE analyser

Particulars	FY08	FY09
A. Return on net operating assets (RNOA)		
(OPATO x NOPAT margin) (%)	12.3	3.6
OPATO (operating asset turnover) (x)	1.7	1.4
NOPAT margin (%)	7.2	2.5
B. Return from leverage (FLEV x spread) (%)	4.8	(0.2)
FLEV (financial leverage) (x)	0.6	0.9
NBC (net borrowing cost) (%)	4.5	3.8
Net financial spread (RNOA -NBC) (%)	7.9	(0.2)
C. Return from other funding (%)	1.0	1.2
ROE Derived (A+B+C) (%)	18.2	4.6

Source: Company annual report, Edelweiss research

Note: *Excluding exceptional items

ROE tree



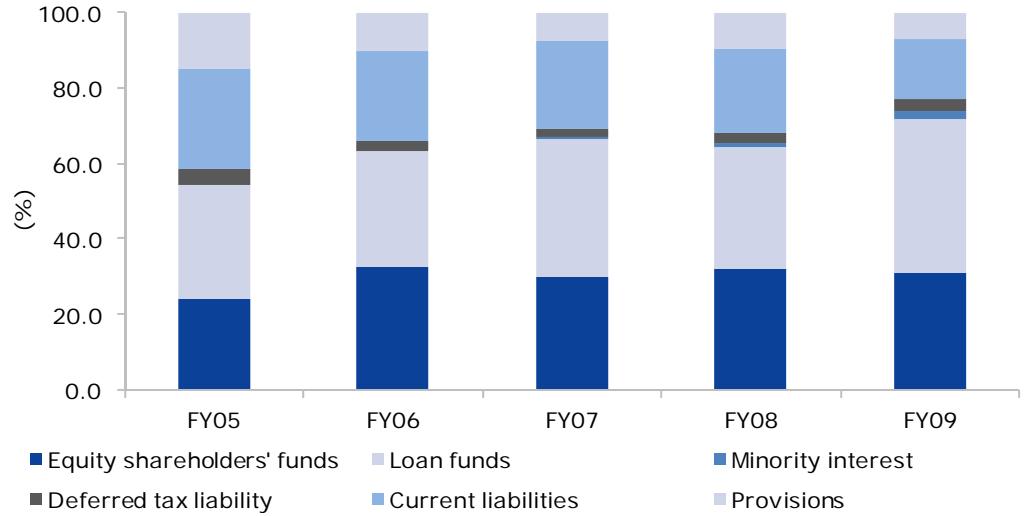
Source: Company annual report, Edelweiss research

Lower RNOA
triggers significant
decline in ROAE

Leverage, despite
non-provisioning of
redemption
premium on FCCBs,
depleted ROE

Loan funds increase to recoup lower current liabilities and provisions, keeping non-equity liabilities constant

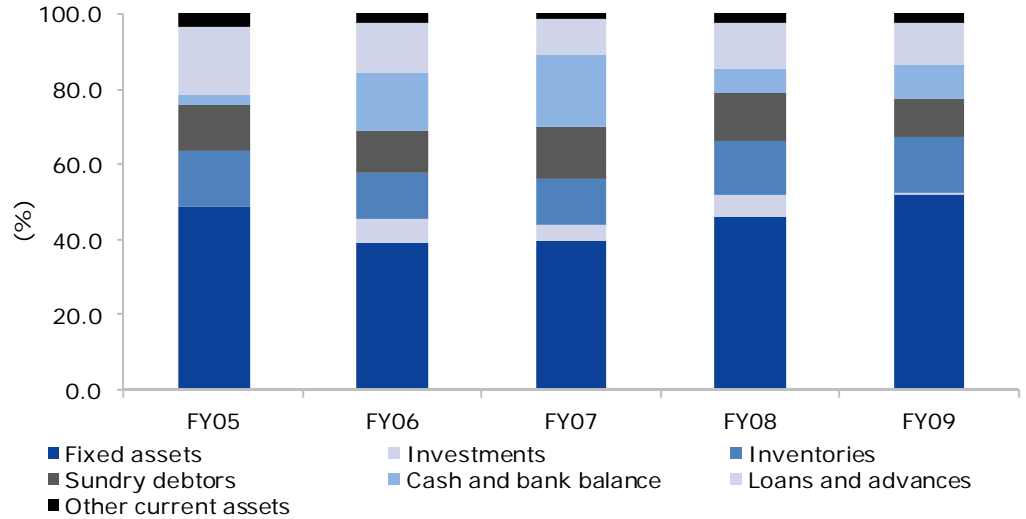
Sources of funds



Source: Company annual report, Edelweiss research

Fixed assets continue to increase

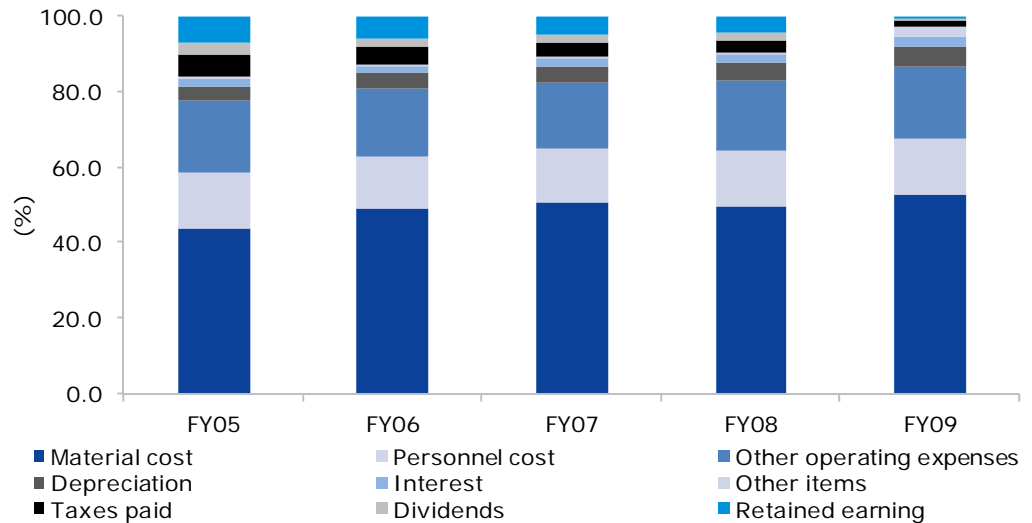
Application of funds



Source: Company annual report, Edelweiss research

Material cost continues to increase; other items (exchange loss) increase substantially

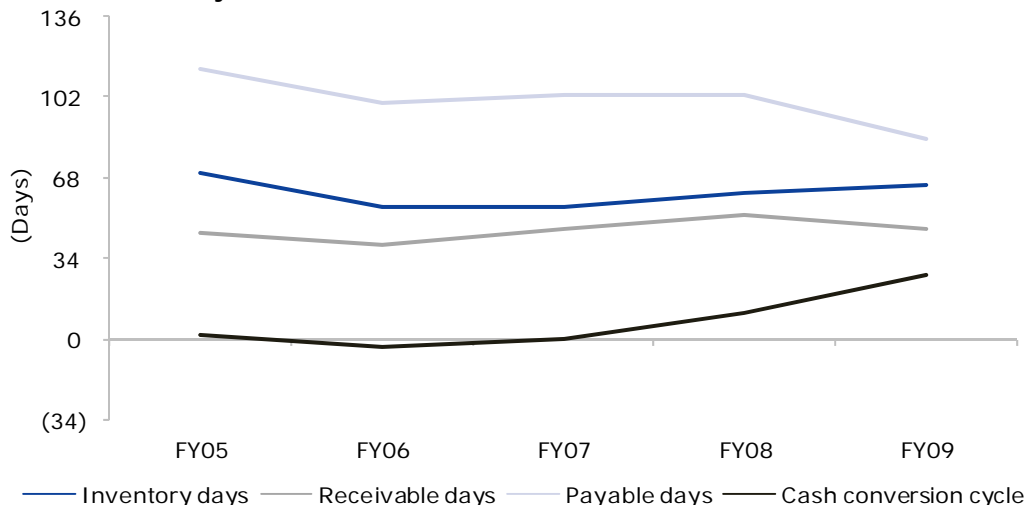
Utilisation of income



Source: Company annual report, Edelweiss research

Lesser payable days increase cash conversion cycle

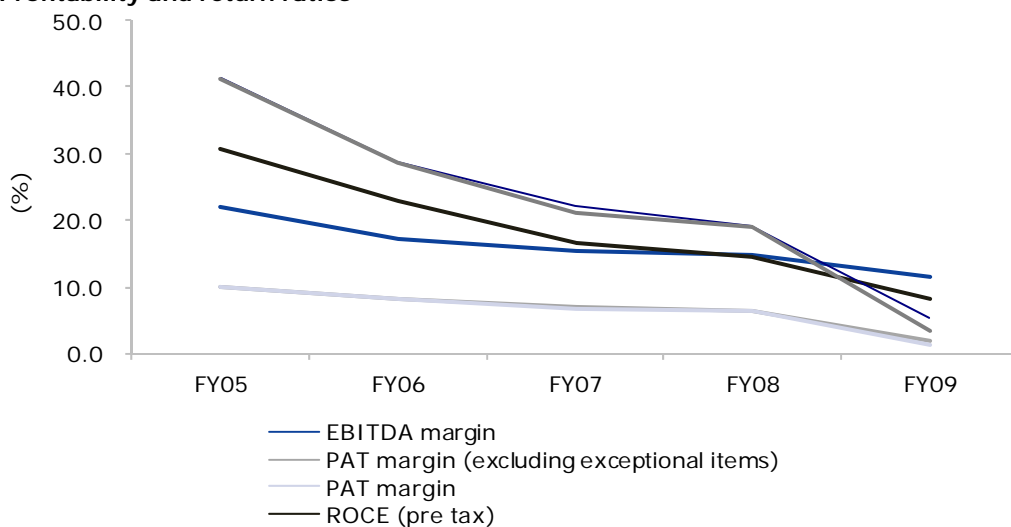
Cash conversion cycle



Source: Company annual report, Edelweiss research

Downward spiral of margins and returns continues unabated

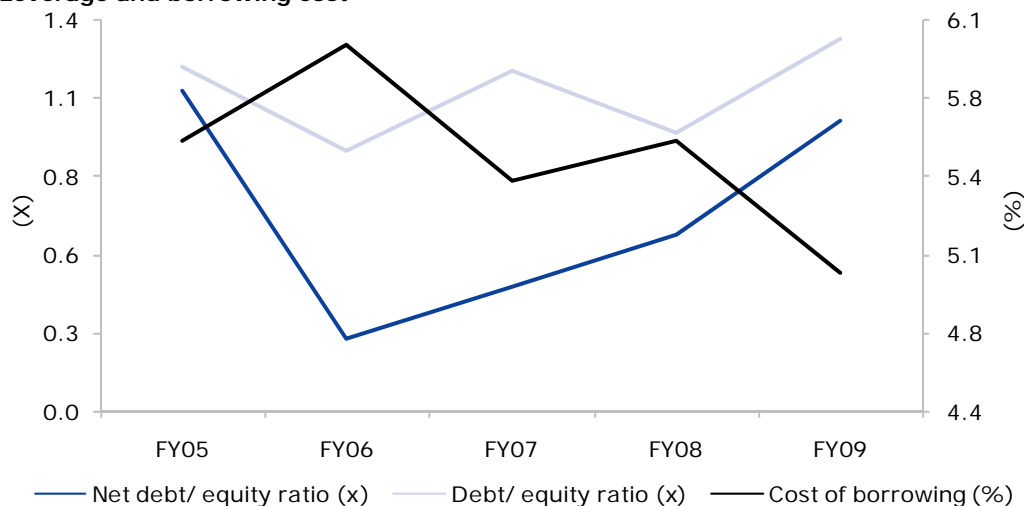
Profitability and return ratios



Source: Company annual report, Edelweiss research

FCCBs (~42.5% of borrowings): Non provisioning of redemption premium keeps borrowing cost low; restatement at depreciated INR increased leverage and further reduced borrowing cost

Leverage and borrowing cost



Source: Company annual report, Edelweiss research

Summary financials		(INR mn)				
Particulars	FY05	FY06	FY07	FY08	FY09	
Sales	19,934	30,189	41,783	46,523	47,740	
Total income	20,014	30,850	42,752	47,516	48,427	
EBITDA	4,375	5,240	6,478	6,934	5,545	
EBITDA margin (%)	21.9	17.4	15.5	14.9	11.6	
Depreciation	774	1,283	1,883	2,273	2,519	
Financial costs	411	683	1,067	1,269	1,291	
Net profit	2,011	2,505	2,906	3,015	583	
Equity shareholders' funds	4,862	12,542	14,796	16,541	16,435	
Loan funds	6,000	11,693	17,996	16,544	21,908	
Net fixed assets	9,632	14,814	19,449	23,611	27,902	
Investments	-	2,535	2,073	2,988	2	
Current assets loans and advances	10,293	20,849	27,686	24,781	25,316	
Current liabilities and provisions	8,252	12,999	14,994	16,226	12,081	
Net current assets	2,042	7,850	12,692	8,556	13,236	
Cash flow from operating activities	NA	2,646	3,771	4,284	2,835	
Cash flow from investing activities	NA	(6,388)	(4,473)	(7,383)	(1,978)	
Cash flow from financing activities	NA	9,223	4,159	(3,106)	843	
Net cash flows	NA	5,481	3,457	(6,206)	1,700	
CAPEX	NA	(4,180)	(5,592)	(7,045)	(5,393)	
Working capital investments	NA	(4,125)	(4,126)	(2,361)	574	

Source: Company annual report, Edelweiss research

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