COMPANY NOTE

Initiating Coverage

IND | Industrials | Autos & Auto Parts

3 May 2012

Jefferies

Bharat Forge (BHFC IN)

Initiating at Buy: Past Investment Phase

BUY

Price target INR441.00

Price INR322.00

EQUITY RESEARCH ASIA

Key Takeaway

We initiate coverage of Bharat Forge (BFL) with a Buy rating and price target of Rs441. We believe that Bharat Forge is past its investment stage and will now benefit from improving asset utilisation. While some of its overseas subsidiaries are still under stress, we expect the management to take remedial action soon.

Building blocks in place: Over the past few years, BFL has expanded its presence into newer markets and segments, even as it has maintained its hold over existing businesses. BFL is now the world's largest independent forging company but still accounts for less than 1.5% share of the estimated global forging production. In the near term, we expect BFL to benefit from the rebound in the US truck market and increasing value addition in the Indian truck market. Expansion into non-auto segments should bring new growth opportunities and offset the cyclicality of the auto business.

It's all about utilisation: Forging is a capital-intensive business with profitability contingent on asset utilisation and the extent of value addition (machining vs raw forging). BFL increased its raw forging capacity by over 60% in FY09/FY10, even as its end markets slowed down, leading to a sharp fall in utilisation levels (80% in FY08 to 34% in FY10). Since then, however, BFL has benefited from three factors, which will likely accelerate: a) higher utilisation of forging capacity, increasing to 57% in FY12E and to 65% in FY14E; b) higher proportion of machining, from 40% historically to c45% in FY14E; and c) higher proportion of non-auto sales, from <30% historically to c40% at stable state.

Subsidiaries and JVs - no more cash calls: BFL's overseas units account for c50% of global capacity but are operating at less than 50% utilisation. It has shut down one of its European plants and we expect BFL to take more such remedial actions in the future. Cumulatively, we expect the overseas subsidiaries to be self-funding, though they would contribute very little to profits in the near term. We are concerned with the profitability of the power equipment JV with Alstom given the intense competition in the TG space.

Valuation/Risks

BFL stock has been sharply derated since 2008, initially due to slowdown in demand but subsequently due to concerns on its subsidiaries. Our SOTP-derived PT of Rs441 is based on: a) increasing asset utilization in its India operations, which we value at 16x FY14E; and b) no incremental cash calls from its JVs and subsidiaries, which we value at 0.5x FY13E BV to factor in our concerns on profitability. **Risks**: New expansion in the domestic business, cash calls from international subsidiaries and execution delays in power equipment JVs are key downside risks. Currency fluctuation is a risk for margins.

INR	Prev.	2011A	Prev.	2012E	Prev.	2013E	Prev.	2014E
Rev. (MM)	--	29,473.0	--	39,763.0	--	42,814.0	--	47,898.0
EV/Rev		3.0x		2.2x		2.0x		1.8x
EBITDA (MM)	--	7,202.0	--	9,102.0	--	10,663.0	--	11,981.0
EV/EBITDA		12.1x		9.6x		8.2x		7.3x
Net Profit	--	3,106.0	--	4,284.0	--	5,380.0	--	6,333.0
BV/Share	--	85.70	--	98.50	--	118.80	--	137.20
P/B		3.8x		3.3x		2.7x		2.3x
ROE	--	15.6%	--	18.7%	--	18.9%	--	19.3%
EPS								
FY Mar	--	13.30	--	18.40	--	22.50	--	26.50
FY P/E		24.2x		17.5x		14.3x		12.2x

Financial Summary

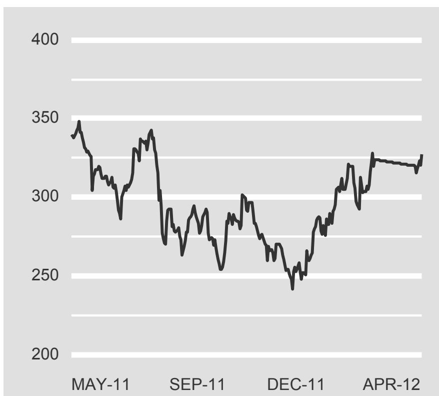
Book Value (MM):	INR19,529.0
Book Value/Share:	INR83.90
Net Debt (MM):	INR12,172.0
Return on Avg. Equity:	17.0%

Market Data

52 Week Range:	INR352.45 - INR230.20
Total Entprs. Value (MM):	INR87,133.6
Market Cap. (MM):	INR74,961.6
Insider Ownership:	42.1%
Institutional Ownership:	29.6%
Shares Out. (MM):	232.8
Float (MM):	178.8
Avg. Daily Vol.:	522,929

Govindarajan Chellappa *
Equity Analyst
+91 22 4224 6111 gchellappa@jefferies.com
Rajasa Kakulavarapu *
Equity Analyst
+91 22 4224 6115 rajasak@jefferies.com
* Jefferies India Private Limited

Price Performance



Bharat Forge

Buy: Rs441 Price Target

Scenarios

Target Investment Thesis

- Volume growth of 12% p.a. over FY11-14E
- Faster revenue growth of 18% led by mix improvement (higher machining)
- FY14E EBITDA margins improve 60 bps over FY11 to 25%
- FY14E EPS at Rs26.5(+26% p.a.)
- Target price of Rs441 based on 14xFY14E standalone EPS and 0.5x P/BV of investments

Upside Scenario

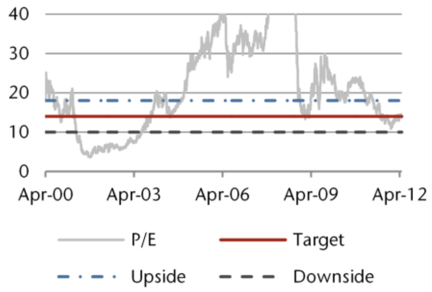
- Volume growth of 15% p.a. over FY11-14E
- Faster revenue growth of 23% led by better than expected mix improvement
- FY14E EBITDA margins improve 60 bps over FY11 to 25%
- FY14E EPS at Rs32.6 (+35% p.a.)
- Target price of Rs605 based on 18xFY14E standalone EPS and 0.5x P/BV of investments

Downside Scenario

- Volume growth of 8% p.a. over FY11-14E
- Revenue growth at same level with no improvement in pricing or mix
- FY14E EBITDA margins stay flat
- FY14E EPS at Rs17.8 (+10% p.a.)
- Target price of Rs195 based on 10xFY14E standalone EPS and 0.5x P/BV of investments

Long Term Analysis

1 Year Forward P/E



Source: Bloomberg, Jefferies estimates

Long Term Financial Model Drivers

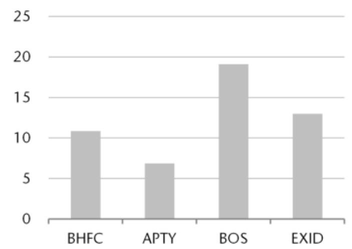
LT Earnings CAGR (3 year)	**26%**
Organic Revenue Growth	**18%**
Acquisition Contribution	**0%**
Operating Margin Expansion	**0.6%**

Other Considerations

We do not factor in any turnaround in international operations which have had weak profitability for a while now.

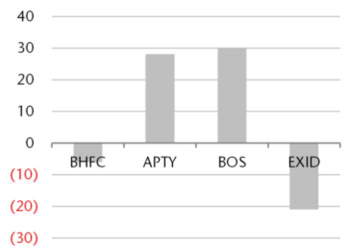
Peer Group

Group P/Es (FY14E)



Source: Bloomberg, Jefferies estimates

12m stock performance



Source: Bloomberg, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
BHFC IN	**Buy**	Rs441
APTY IN	NC	NC
BOS IN	NC	NC
EXID IN	NC	NC

Catalysts

- Improvement in asset utilisation
- Increase in contribution of machining
- Remedial action in international operations
- Sustained growth in non-auto segments

Company Description

Bharat Forge is India's largest manufacturer and exporter of automotive components and leading chassis component manufacturer. With manufacturing facilities spread across India, Europe, US & China, Bharat Forge manufactures a wide range of safety and critical components serving several sectors including automobile, power, oil and gas, rail & marine, aerospace, construction & mining.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Executive Summary

We initiate coverage of Bharat Forge (BFL) with a Buy rating and price target of Rs441 (35% potential upside). We believe that Bharat Forge is past its investment stage and will now benefit from improving asset utilisation. While some of its overseas subsidiaries are still under stress, we expect the management to take remedial action soon.

Building blocks in place

BFL has grown to become the world's largest independent forging company but still has less than 1.5% share of the estimated global forging production

Over the past few years, BFL has expanded its presence into newer markets, and newer segments, even as it has maintained its hold over its existing businesses. BFL has grown to become the world's largest independent forging company, with a global capacity of over 750k tonnes, but still accounts for less than 1.5% share of the estimated global forging production. It has a long established track record in the auto business but has recently expanded into non-auto segments. In the near term, we expect BFL to benefit from the rebound in the US truck market and increasing value addition in the Indian truck market. However, it is the expansion into non-auto segments that brings new growth opportunities as well as a counterforce to the cyclicality of the auto business.

It's all about utilisation

Higher utilization of forging capacity, higher proportion of machining and non-auto sales should drive higher return rations going forward

Forging is a capital-intensive business with profitability contingent on asset utilisation and the extent of value addition (machining as opposed to sale of raw forging). BFL increased its raw forging capacity by over 60% in FY09 and FY10, even as its end-markets slowed down. Consequently, BFL's forging capacity utilisation fell from 80% in FY08 to 34% in FY10. Since then, however, Bharat Forge has benefited from three factors, which will likely accelerate: a) higher utilisation of forging capacity, increasing to 57% in FY12E and to 65% in FY14E, with no incremental investment; b) higher proportion of machining, from 40% historically to c45% in FY14E, with bulk of incremental investments going into increasing machining; and c) higher proportion of non-auto sales, from <30% historically to c40% at stable state. We believe all these factors will result in higher return ratios. In FY11-14E, we forecast volumes to grow 12% pa, revenues to grow 17.5% pa, EBIDTA to grow 18.5% pa and EPS to grow 26.8% pa and RoE to expand from 14.5% to 21.5%.

Subsidiaries and JVs: no more cash calls

We expect the overseas subsidiaries to be self-funding, though they would contribute very little to profitability in the near term

Over 2004-06, BFL acquired various forging companies in Europe and the US and also formed a JV in China. The overseas units cumulatively account for c50% of global capacity but are operating at less than 50% utilisation. BFL has shut down one of its European plants and we expect BFL to take more such remedial action in the future. Cumulatively, we expect the overseas subsidiaries to be self-funding, though they would contribute very little to profitability in the near term. BFL has also entered into JVs with Alstom (ALO FP, €27, NC) for the manufacture of turbine and generator. Given the intense competition in the TG space, we are concerned about profitability of this venture, though management expects it to be profitable.

Valuation

The stock has been significantly derated since 2008, initially due to slowdown in demand but subsequently due to concerns on its subsidiaries

BFL is well recognized as one of India's biggest successes in engineering space. However, the stock has been significantly derated since 2008, initially due to slowdown in demand but subsequently due to concerns on its subsidiaries. Our Buy rating on the stock with an SOTP-derived PT of Rs441 is based on: a) increasing asset utilization in its India operations, which we value at 16x FY14E ;and b) no incremental cash calls from its JVs & subsidiaries, which we value at 0.5x FY13E BV to factor in our concerns on profitability.

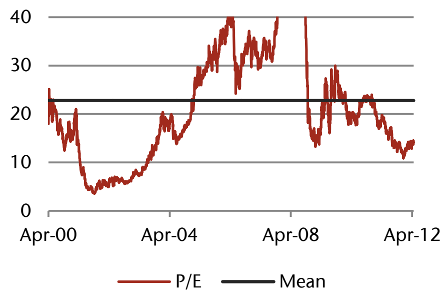
Risks

New expansion in the domestic business, cash calls from international subsidiaries and execution delays in power equipment JVs are key downside risks. Currency fluctuation is a risk for margins.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

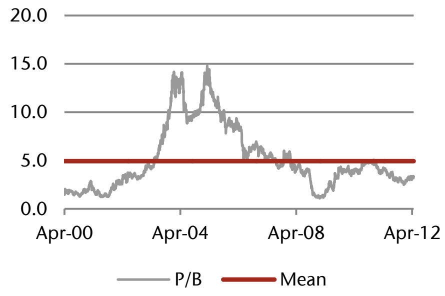
Bharat Forge Profile

Exhibit 1: Standalone PE (x)



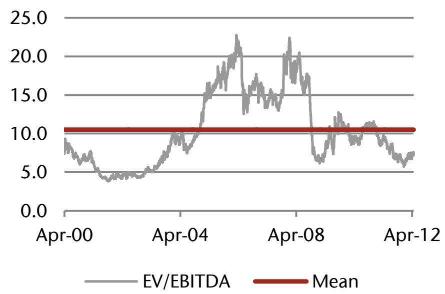
Source: Bloomberg, Jefferies

Exhibit 2: Standalone PB (x)



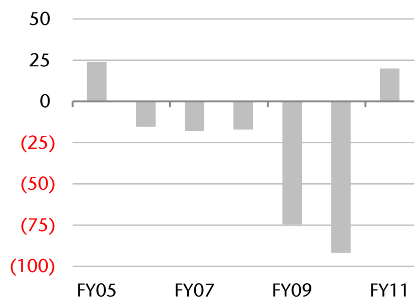
Source: Bloomberg, Jefferies

Exhibit 3: Standalone EV/EBITDA (x)



Source: Bloomberg, MSCI India, Jefferies

Exhibit 4: Consensus vs delivered EPS (% variation)



Source: Datastream, Company Data

Exhibit 5: Capital Structure

No of subsidiaries / associates / JVs	18
Promoter Ownership	42.1
FII Ownership	10.1
DII Ownership	18.7
Pledged shares - current % of promoter share	0.0
6M Change in % of shares pledged	0.0
Warrants outstanding as % of equity	2.8
Quasi equity (CBs) as % of net worth	17.9
Revaluation reserves as % of net worth*	0.0
Capital raised as % of change in net worth* (10YR)	54.6
Contingent liability as % of net worth*	35.8
ECB/FCCB as % of total debt	53.4
Investments as % of assets	15.8
Capex announced (as % of networth*)	12.5
Working Capital as days of sales (x)	53

Exhibit 6: Forex impact

Export as % of sales	41
Imports as % of sales	1.7
Net currency exposure as % of sales	39.4
Hedges outstanding as % of sales	17.8

Exhibit 7: Market Data

Average value traded as % of free float/market cap (6M avg.)	0.2
Avg delivery vols as % of vols (6M avg.)	53.0
PVGO/market cap	55.6
Beta (based on last 5 year weekly returns)	1.1

Exhibit 8: Financial Data

Ten year average (FY01-11)	Company Median	Company Std Dev	Market Median	Market Std Dev	z-score FY13E
Sales growth (CAGR)	20.1	24.0	19.0	7.3	(0.2)
Other income as % of PBT	13.6	9.5	29.4	7.0	(0.7)
EBITDA Margins	24.9	3.3	14.9	1.2	0.0
Interest cost as % of PBT	27.3	33.9	20.7	14.6	(0.4)
Tax rate	32.7	2.8	26.2	1.3	(1.0)
EPS growth (CAGR)	25.3	92.9	28.5	14.4	0.0
Average payout	32.9	14.3	9.6	5.3	0.2
FCF as % of PAT - Range/Avg	19.3	239.5	70.2	32.9	0.4
Historic average growth in gross block	17.9	11.0	20.4	6.8	(1.0)
Historic average RoE	16.7	15.0	20.0	3.8	0.2

* z-score = (FY13 estimate – historical median) ÷ Std deviation

Exhibit 9: Dupont Analysis

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Asset Turnover	0.8	0.8	1.2	1.3	1.5	1.6
EBIT margins	10.2%	14.7%	17.9%	18.7%	19.2%	19.6%
Interest Burden (PBT/EBIT)	0.8	0.7	0.8	0.9	0.9	1.0
Tax Burden (PAT/PBT)	66%	70%	69%	70%	70%	70%
Equity multiplier (Assets/equity)	1.8	1.5	1.3	1.2	1.1	0.9
ROE	7%	8%	16%	19%	20%	20%

Exhibit 10: Earnings sensitivity

% Change in EPS for 1% change in	FY14E
Volumes	3.0
Price per unit	5.3
Raw material cost per unit	2.3
Currency	2.5

Source: Company Data, Jefferies

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

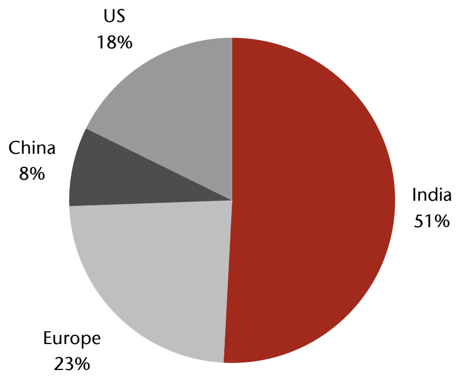
Building blocks in place

BFL has grown to become the world's largest independent forging company but still has less than 1.5% share of the estimated global forging production

Over the past few years, BFL has expanded its presence into newer markets, and newer segments, even as it has maintained its hold over its existing businesses. BFL has grown to become the world's largest independent forging company, with a global capacity of over 750k tonnes (the next biggest company has a capacity 410k tonnes) but still has less than 1.5% share of the estimated global forging production. It has a long established track record in the auto business but has recently expanded into non-auto segments. In the near term, we expect BFL to benefit from the rebound in the US truck market and increasing value addition in the Indian truck market. However, it is the expansion into non-auto segments that brings new growth opportunities as well as a counterforce to the cyclicality of the auto business.

The global market for forged products is estimated to be about 25m MT. Bharat Forge is the largest commercial forging company with a global capacity of over 750k MT. The forging industry is extremely fragmented, with bulk of the global production done in-house by end users. There are very few large commercial forging companies and most are specialised and sub-scale. Bharat Forge, despite being the largest, accounts for less than 1.5% of the global production.

Exhibit 11: Split of Bharat Forge's global capacity



Source: Jefferies, company data

Bharat Forge has significant competitive advantage over its commercial competitors (most based in the Western world) and in-house facilities

- Scale: As noted earlier, Bharat Forge is the largest commercial forging manufacturer in the world. As we establish in the next section, forging is a very capital-intensive business, which naturally lends itself to significant scale benefits
- Significant capacity in low cost countries: Wage cost for Bharat Forge's India operations are less than 7% of sales as compared to over 20% for its overseas operations. This is likely representative of the competitive advantage that Bharat Forge has over its competitors who have most of their capacity in the developed world
- Established track record: the auto manufacturers are increasingly consolidating vendors even as they involve the vendors from the initial stages of design. It thus becomes a difficult market to break into. Bharat Forge's long and successful presence in many of the user segments puts it in a relatively strong position to be a partner of choice. We note that Bharat Forge has market share in excess of 50% in some of the products in a market like the US.

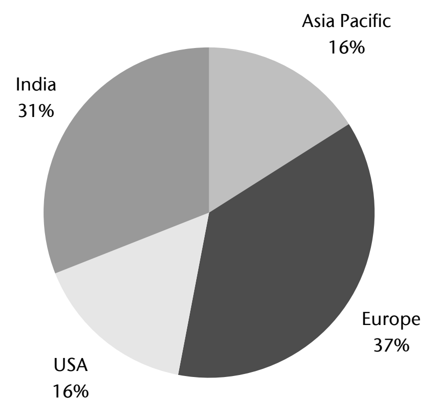
Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

- Diversified revenue base: Bharat Forge has market presence across various countries and serves various auto and non-auto segments. It has among the lowest client concentration of all global vendors, thereby significantly reducing single-client exposure related risks
- Diversified manufacturing base: Bharat Forge has manufacturing capacities across four continents. In an unlikely event of supply disruptions from one location, other plants can step up production to offset the loss and more importantly, keep the supply disruption to the customer minimised.
- Significant machining skills and capacity: While raw forgings are relatively easy market to break into, the sale of machined final products are usually restricted to very few vendors. The sales cycle involved to get a contract for machined product is much longer and eventually, stickier. Bharat Forge has significant machining capacities and is one key reason for its high profitability
- Balance sheet strength: owing to the capital intensity of the business, balance sheet strength has always been a critical parameter for vendor selection in this business. This is particularly so post the financial crisis of 2008-09, when many suppliers were unable to keep the production commitments.

Well diversified revenue base

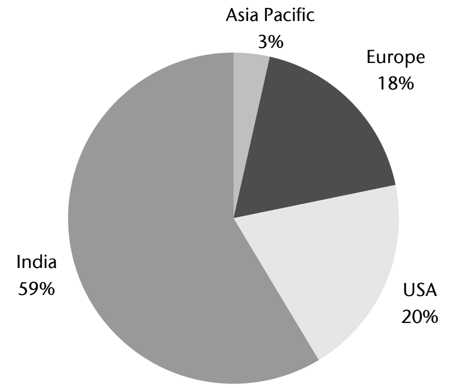
Over the years, Bharat Forge has expanded from being a supplier to commercial vehicle manufacturers in India to being a global player with manufacturing presence across four continents and spread into other auto and non-auto segments.

Exhibit 12: Geographical split of consolidated revenues



Source: Company Data

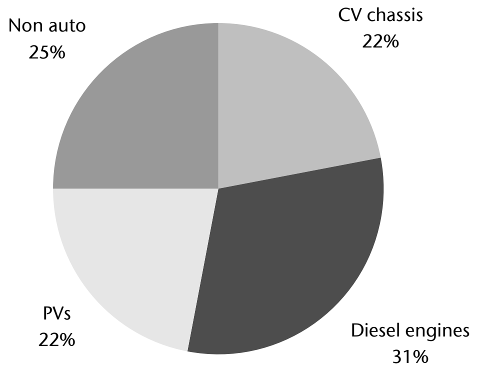
Exhibit 13: Geographical split of standalone revenues



Source: Company Data

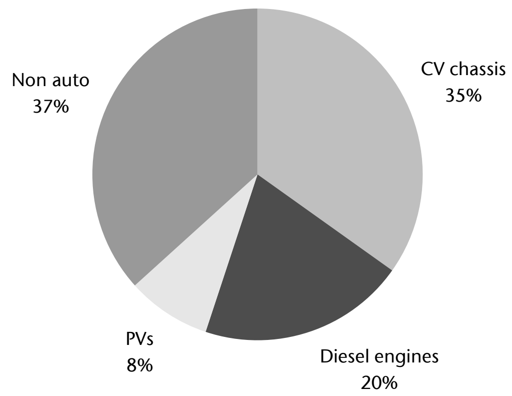
Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 14: Product-wise split of consolidated revenues



Source: Company Data

Exhibit 15: Product-wise split of standalone revenues



Source: Company Data

Growth in end-markets

We expect production of heavy trucks in North America to remain strong as it rebounds after multiple years of under investment. We also forecast Indian heavy vehicle production to grow at 8% pa in the near term

Bharat Forge has a dominant position in supply of crank shafts and front axle beams for heavy trucks in India, the US and Europe. To that extent, Bharat Forge is dependent on the growth in end-markets of these products. As seen in the charts above, heavy commercial vehicles account for over 50% of Bharat Forge's revenues (consolidated and standalone). We expect production of heavy trucks in North America to remain strong as it rebounds after multiple years of under investment. We also forecast Indian heavy vehicle production to grow at 8% pa in the near term. Demand in Europe is likely to be soft in the near term.

Exhibit 16: End market volumes and growth (units)

	CY08	CY09	CY10	CY11	CY12E	CY13E	CY14E
NA	205,978	118,440	154,183	256,050	300,000	320,000	325,000
Change		-42%	30%	66%	17%	7%	2%
Europe	319,089	163,684	176,530	236,512	220,000	230,000	250,000
Change		-49%	8%	34%	-7%	5%	9%
India	191,961	249,132	344,416	383,007	413,648	446,739	491,413
Change		30%	38%	11%	8%	8%	10%

Source: Company data, Jefferies estimates

Opportunity in non-autos

Non-auto segment is estimated to account for over 50% of the forging market

Bharat Forge's efforts in the last few years have been to expand its presence in the non-auto space. Non-auto segment is estimated to account for over 50% of the forging market. The non-auto market for forged components is characterised by customised and specialised high value but low volume parts. Client approval processes are much longer than autos but the business is stickier as well. The major segments that constitute non-autos are railways, power, marine, construction equipment and oil & gas.

Having spent the last five years in creating capacities and track record in this segment, we believe that Bharat Forge is well equipped to benefit from growth in outsourcing of non-auto forged components we believe that there is a large market even with in India. A large number of domestic companies import most of their forging requirements. On the other hand, none of the domestic forging companies (ex-Bharat Forge) have capacity or capability to service this segment. We expect the non-auto segment to provide a counter-cyclical growth opportunity for Bharat Forge.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

It's all about utilisation

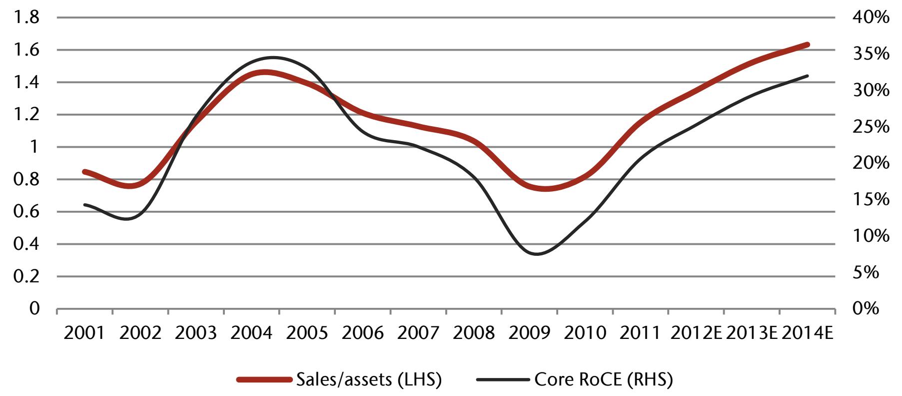
Higher utilization of forging capacity, higher proportion of machining and non-auto sales should drive higher return rations going forward

Forging is a capital-intensive business with profitability contingent on asset utilisation (which has a practical constraint in a growth environment) and extent of value addition (machining as opposed to sale of raw forging). Bharat Forge increased its raw forging capacity by over 60% in FY09 and FY10, even as its end markets slowed down along with rest of the global economy. Consequently, BFL's forging capacity utilisation fell from 80% in FY08 to 34% in FY10.

Since then, however, Bharat Forge has benefited from three factors, which will likely accelerate: a) higher utilisation of forging capacity, increasing to 57% in FY12E and to 65% in FY14E, with no incremental investment in expansion; and b) higher proportion of machining, from an average of 40% historically to c45% in FY14E, with bulk of incremental investments going into increasing value addition through machining; and c) higher proportion of non-auto sales, from <30% historically to c40% at stable state. We believe all these factors will result in higher return ratios. In FY11-14E, we forecast volumes to grow 12% pa, revenues to grow 17.5% pa, EBIDTA to grow 18.5% pa and EPS to grow 26.8% pa and RoE to expand from 14.5% to 21.5%.

Bharat Forge's business has historically been fairly capital-intensive, with asset turns ranging from 0.75x to 1.5x. RoCEs have broadly mirrored the movement in asset turns.

Exhibit 17: Highly asset intensive business



Source: Jefferies estimates, company data

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Cost structure explained

Bharat Forge's profitability (RoCE) is broadly a function of three variables – capital investment, asset utilisation and value addition (machining). Variables like cost of steel (mostly pass through) have had very little relevance in the past. In the following table, we look at a pro forma P&L of a new plant with a capacity of 100k MT.

Exhibit 18: Indicative profitability of a new plant

	Volume ('000 MT)	ASP (Rs '000/MT)	Value (Rs m)
Capacity	100		
Capex			6,000
Utilisation	75%		
Forging production	75	126	9,450
Scrap production	32	19	611
Sales	107		10,061
Steel required	107	55	5,893
Conversion cost			2,515
EBIDTA			1,653
Margin			16%
RoCE			**21%**
Change in economics if 40% machined			
Capacity	40		
Incremental Capex			1,000
Utilisation	75%		
Machined forgings	30	190	5,700
Conversion cost			600
Incremental revenues			1,920
Incremental cost			600
Incremental EBIDTA			1,320
Total revenues			11,981
Total EBIDTA			2,973
EBIDTA margin			25%
RoCE			**35%**

Source: Jefferies estimates, company data

Exhibit 19: RoCE with change in utilization and machining

%	50%	60%	70%	80%	90%
20%	17%	21%	26%	31%	36%
30%	19%	24%	30%	35%	40%
40%	21%	27%	33%	38%	44%
50%	23%	29%	36%	42%	48%
60%	25%	32%	38%	45%	51%

Source: Jefferies estimates, company data

Asset utilisation – coming off a low base

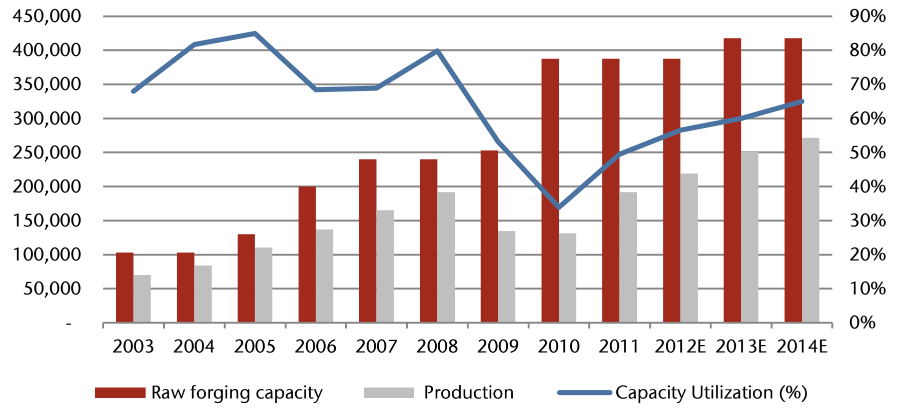
Bharat Forge's capacity utilisation fell from c80% in FY08 to a low of 34% in FY10, before improving to 49% in FY11

BFL invested considerably to expand its raw forging capacity by over 60% in FY08-10E. This coincided with the 2008-09 financial crisis which resulted in a significant slowdown in demand. Moreover, a major portion of incremental capacity was for the non-auto business which was anyway expected to ramp-up gradually. Owing to a combination of the above reasons, Bharat Forge's capacity utilisation fell from c80% in FY08 to a low of 34% in FY10, before improving to 49% in FY11.

Bharat Forge is unlikely to increase capacity for raw forgings in the near future (except c30,000MT of capacity being shifted from its Scottish subsidiary to India). We therefore forecast utilisation to improve to 65% by FY14E.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 20: Increasing utilisation of raw forging capacity (MT)



Source: Jefferies estimates, company data

Higher value addition

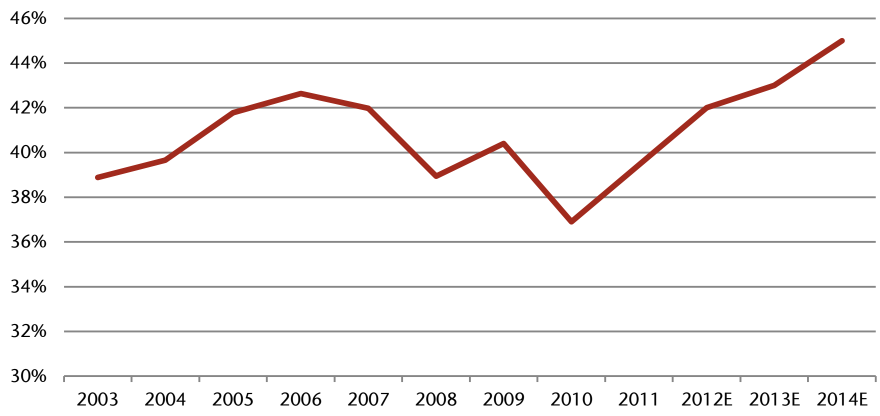
Vendors of machined products typically need to establish a long track record

As we established earlier, increasing value addition through machining is RoCE-accretive. However, the market for machined products is hard to break into. Several customers have in-house machining facilities, which are phased out only with change in engine and vehicle platforms. Customers are also less inclined to outsource machining as this operation is critical to the product performance. Vendors of machined products typically need to establish a long track record. We believe that Bharat Forge is one of the few large global vendors with such an established track record. Also, when demand slows down, consumers tend to cut outsourced machining contracts rather than in-house volumes.

We also note that machining increases with a time lag after a new forge facility is set up. Typically, when total forging capacity is expanded, machining (as a percentage of sales) tends to fall as the initial sales from new facility are usually raw forgings.

We forecast machining (as a percentage of total sales) to increase to 45% by FY14E.

Exhibit 21: Increasing machining (as a % of sales volumes)



Source: Jefferies estimates, company data

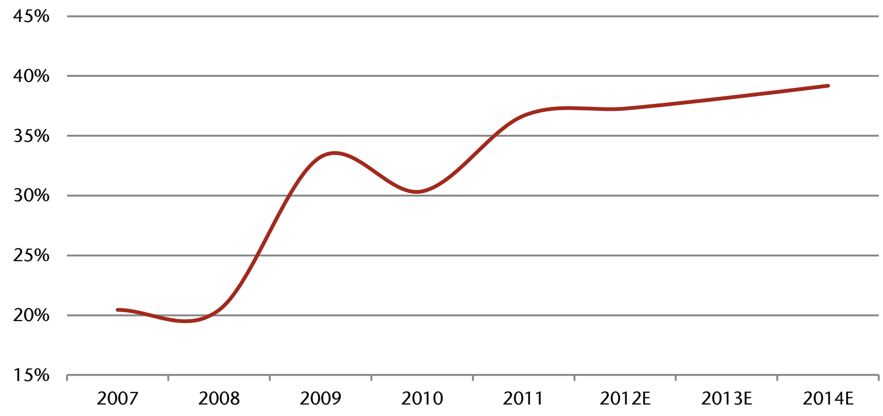
Scale up in non-autos

We forecast non-auto revenues to grow 21% pa in FY11-14E and account for c40% of total standalone sales by end of this period

Bharat Forge's stated focus in the past few years has been to create a substantive non-auto business to open up new growth opportunities as well as create a counter balance to the cyclicality of the auto business. Towards this end, bulk of the capacity expansion since FY08 has been dedicated to the non-auto business. We forecast non-auto revenues to grow 21% pa in FY11-14E and account for c40% of total standalone sales by end of this period.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 22: Contribution of non-autos to revenue



Source: Jefferies estimates, company data

Financials

We expect depreciation and interest cost to fall from c11% of net sales in FY11 to less than 7.5% in FY14E

The impact of higher operating leverage is primarily felt below the EBIDTA line. We expect depreciation and interest cost to fall from c11% of net sales in FY11 to less than 7.5% in FY14E, resulting in a corresponding increase in PBT margins. A combination of this and a 17.5% pa growth in net sales in FY11-14E will likely result in 26.8% pa growth in net profit in the same period. We factor in conversion of warrants (6.5m, strike price Rs272 per share) in FY13E and consequently, our EPS growth forecast is slightly lower at 25.7% pa.

Exhibit 23: Standalone P&L summary

Rs m	2009	2010	2011	2012E	2013E	2014E
Production (MT)	134,428	131,367	191,780	219,079	250,650	271,538
Utilization	53%	34%	49%	57%	60%	65%
Raw forging	9,280	9,057	13,434	16,026	18,380	19,597
Machined forging	8,821	7,995	13,202	17,507	20,917	24,425
Others	2,475	1,512	2,837	3,230	3,517	3,876
Net sales	20,576	18,564	29,473	36,763	42,814	47,898
EBIDTA	3,587	4,370	7,202	9,102	10,663	11,981
OPM	17.4%	23.5%	24.4%	24.8%	24.9%	25.0%
Net profit	1,033	1,270	3,106	4,284	5,380	6,333
Shares O/S (m)	223	223	233	233	239	239
EPS (Rs)	4.6	5.7	13.3	18.4	22.5	26.5
Core RoCE	7.7%	12.0%	20.6%	25.2%	29.3%	32.0%
RoE	6.1%	7.8%	14.5%	17.4%	19.2%	20.7%
D/E (x)	1.22	1.21	0.74	0.65	0.46	0.33

Source: Jefferies estimates, company data

We expect the strength in profitability to translate to strong cash flows. We do not expect Bharat Forge to increase its forging capacity for the next two years. We expect additional capex to go into increasing machining capacity but forecast total capex in FY12-14E to be similar to depreciation. We also make a significant assumption that the standalone balance sheet will not need to fund any of its overseas ventures or JVs from FY13E onwards.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 24: Standalone cash flows

Rs m	2009	2010	2011	2012E	2013E	2014E
EBIT	2,092	2,726	5,269	6,884	8,241	9,382
Less tax	628	818	1,581	2,065	2,472	2,815
NOPLAT	1,465	1,908	3,689	4,819	5,769	6,568
Capex	4,681	159	2,030	3,139	2,500	2,500
Increase in WC	2,838	(3,005)	2,750	772	815	1,281
Less depreciation	1,494	1,644	1,933	2,218	2,422	2,599
FCF	(4,560)	6,399	841	3,126	4,876	5,386
Less investment in subsidiaries and JVs	717	1,240	805	2,577	0	0
FCF post investments	(5,277)	5,159	36	549	4,876	5,386

Source: Jefferies estimates, company data

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Subsidiaries and JVs: no more cash calls

We expect the overseas subsidiaries to be self-funding, though they would contribute very little to profitability in the near term

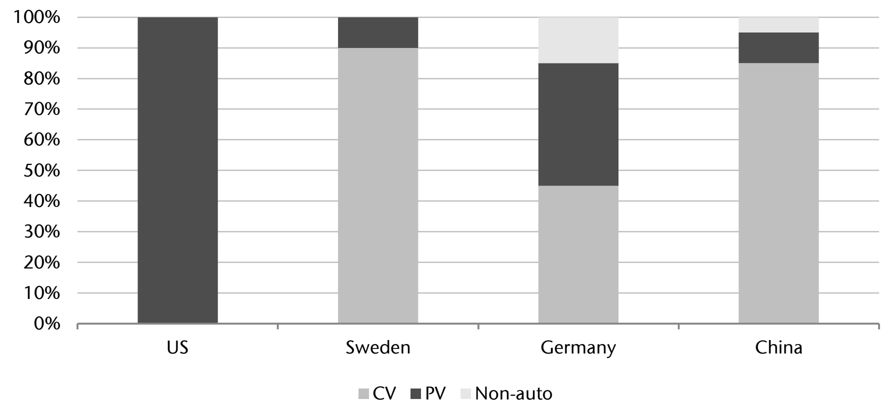
Over 2004-06, BFL acquired various forging companies in Europe and US and also formed a JV in China. The overseas units cumulatively account for c50% of global capacity but are currently operating at less than 50% utilisation. BFL has shut down one of its European plants and is in the process of shifting the equipment to India. We expect BFL to take more such remedial action in the near future. Cumulatively, we expect the overseas subsidiaries to be self-funding, though they would contribute very little to profitability in the near term. BFL has also entered into JVs with Alstom for manufacture of turbine and generator (capacity of 5,000MW pa) and has order book of 3,300MW. Given the intense competition that has come to fore in the TG space, we are a little concerned on the profitability of this venture, though the management expects it to be profitable.

Beginning with Carl Dan Peddinghaus (CDP) (passenger car chassis components manufacturer), Germany's largest independent forging company in January 2004, Bharat Forge acquired CDP Aluminiumtechnik (passenger car chassis components manufacturer) in December 2004, Federal Forge (passenger car and light truck chassis components manufacturer) in June 2005 and finally Imatra Kilsta (heavy trucks engine and chassis components manufacturer), Europe's largest front axle manufacturer and its subsidiary Scottish Stampings in September 2005.

In each case, the company's acquisition rationale has focussed on:

- Gaining access to new product segments (passenger vehicles in Europe through CDP);
- acquiring customers and technology;
- gaining access to new product platforms (GM group through Federal Forge).

Exhibit 25: Distribution of sales for overseas operations

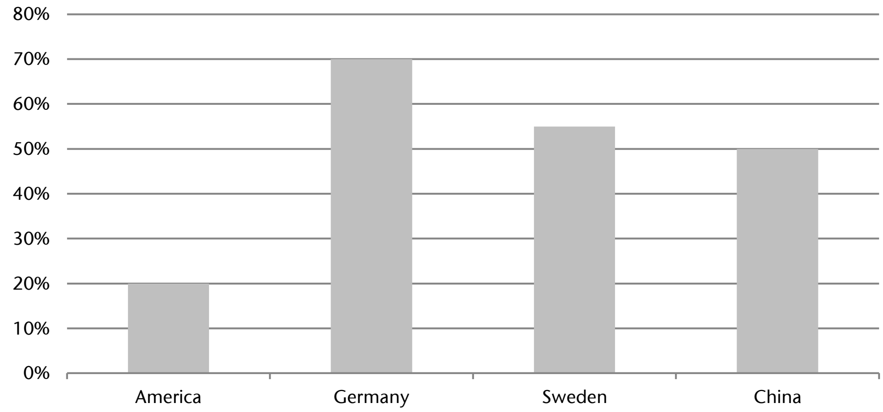


Source: Company Data

The acquisition of CDP has been the most successful. In fact, with evidence on hand, it has been the only consistently profitable overseas subsidiary. The other subsidiaries faced severe demand crunch almost immediately after consummation of those acquisitions. The utilisation levels across various locations are sub-optimal, with the US operations being the most unviable.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 26: Capacity utilisation across various locations



Source: Company Data, Jefferies

The subsidiaries were cumulatively loss making in CY09 but just about broke even in CY10. In CY11, the subsidiaries cumulatively were cash flow positive.

Exhibit 27: Capacity utilization and margins of key subsidiaries

	Capacity (MT)	Utilization	Margins	Cash flow
CDP	90,000	70%	8-10%	Positive
BF-AT	10,000	70%	8-10%	Positive
BF-Kilsta	80,000	55%	c5%	Positive
BF-America	60,000	20%	-20%	Negative
BF-FAW	135,000	50%	c6%	Neutral

Source: Company Data

Management expects the subsidiaries to cumulatively generate revenues of over Rs30b with an EBIDTA margin of 10-11% by CY13E

Management expects the subsidiaries to cumulatively generate revenues of over Rs30b with an EBIDTA margin of 10-11% by CY13E. We are confident of their achieving the sales target; profitability would be a lot tougher to achieve.

Exhibit 28: Subsidiary key financials

Rs m	CY09	CY10	CY11E	CY12E	CY13E
Income	14,899	21,632	27,279	28,178	29,827
EBIDTA	-800	1,040	1,534	1,616	1,744
Margins	-5.4%	4.8%	5.6%	5.7%	5.8%
PBT before exceptional	-1,712	111	308	390	518

Source: Jefferies estimates, company data

Management has been fairly open to restructuring its loss making units in the past

Management has been fairly open to restructuring its loss making units in the past. The company downsized operations, especially in Europe, during the financial crisis. It also shut down its Scottish operations, shifting the plant and equipment to its Swedish and Indian operations.

We believe that all subsidiaries, except the US operations, have a viable business model. The US operation is located in a high cost location and has a fairly fractious union issue. We will not be surprised if the BFL management decides to wind up its US subsidiary in the near future.

In our model, we factor in no further investment from the Indian operation to the subsidiaries and expect the overseas subsidiaries to cumulatively be self-funding.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

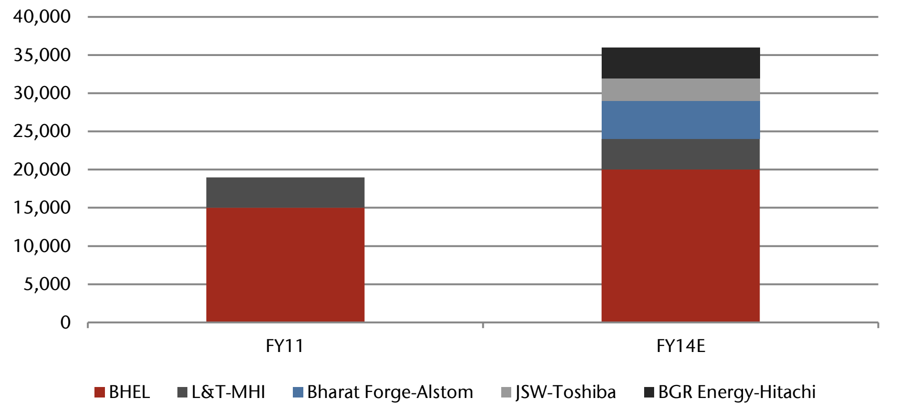
Total investment in the JVs is expected to be Rs17b, of which BFL's equity contribution would be about Rs3b

Investment in power JVs

BFL has formed 2 JVs with Alstom (global leader in power equipment) for manufacturing super critical power plant equipment, which will manufacture the core turbine and generators and the ancillary components. The total investment in the JVs is expected to be Rs17b, of which BFL's equity contribution would be about Rs3b. the JV would have total capacity of 5,000 MW and is expected to start by mid CY13. The JV has already bagged orders worth 3,300 MW deliverable by CY16.

While there exists a strong rationale for Alstom (global leader in power generation equipment) and BFL (India's foremost engineering company) to come together for the power hungry Indian market, the project will necessarily have a very long gestation period. More so, since the recent spurt in competition in the power equipment space which has seen many other global majors establish presence in the Indian market. We expect the industry capacity for manufacture of turbines and generators to increase by nearly 90% in FY12-14E.

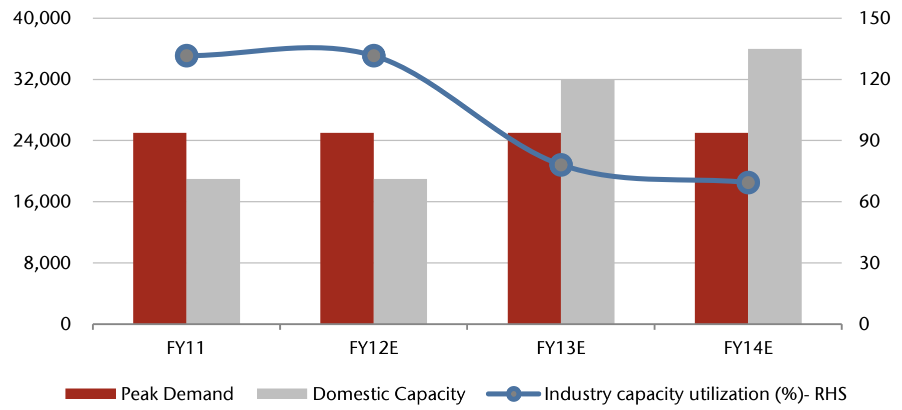
Exhibit 29: Increase in the total domestic TG capacity (MW)



Source: Company data, Jefferies estimates

The heightened capacity will probably be needed to serve the long-term needs of the Indian power sector. However, owing to various issues, ranging from coal availability to land issues, India is expected to add less than 25,000MW per annum in the near term. This will likely result in a sharp fall in industry utilisation.

Exhibit 30: Falling utilisation in TG space (MW)

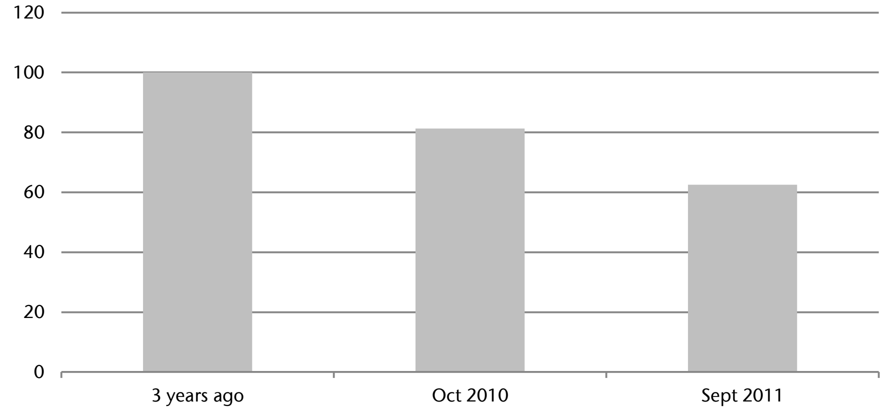


Source: Jefferies estimates

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

This has already manifested itself in pricing trends over the past two years. According to our power sector analyst, Lavina Quadros, the average price at which T&G bids have gone through has declined nearly 40% in this period.

Exhibit 31: Pricing trend (indexed)



Source: Jefferies estimates

Bharat Forge-Alstom JV was the lowest bidder in the Oct 2010 bid and has won orders to supply equipment for 3300 MW (5 x 660 MW) at an average of Rs13m/MW

Bharat Forge-Alstom JV was the lowest bidder in the Oct 2010 bid and has won orders to supply equipment for 3300 MW (5 x 660 MW) at an average of Rs13m/MW. Management is confident of its economics at this price. Going forward, while the management expects pricing to be lower than the price it won the last bid at, it is also confident that pricing will recover from the most recent bids that the JV lost.

The focus for the JV from hereon would be two-fold: a) increase localisation to nearly 80-90% by the third set of deliveries; and b) make the Indian operations a global manufacturing hub for Alstom.

Management does not expect any further cash calls from this operation. This is the key variable that we would watch out for.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

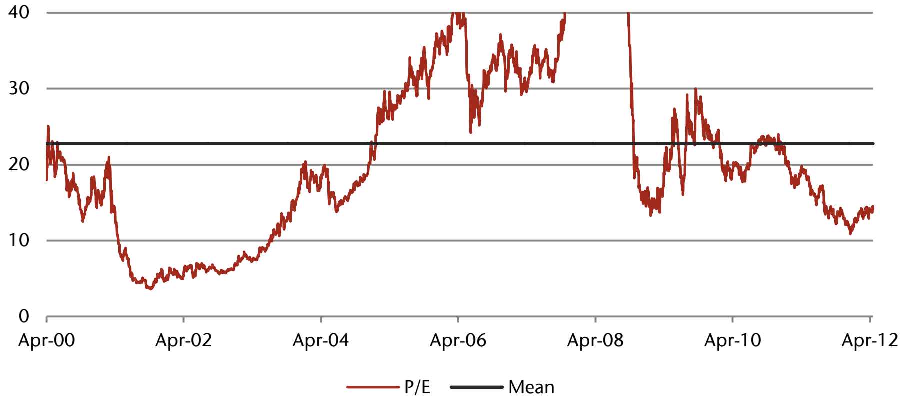
Valuation

The stock has been significantly derated since 2008, initially due to slowdown in demand but subsequently due to concerns on its subsidiaries

BFL has always been well recognized as one of India's biggest successes in engineering space. However, the stock has been significantly derated since 2008, initially due to slowdown in demand but subsequently due to concerns on its subsidiaries. Our Buy rating on the stock with a PT of Rs441 is based on: a) increasing asset utilization in its India operations, which we value at 16x FY14E; and b) no incremental investments or cash calls from its JVs/subsidiaries, which we value at 0.5x FY13E BV to factor in our concerns on profitability.

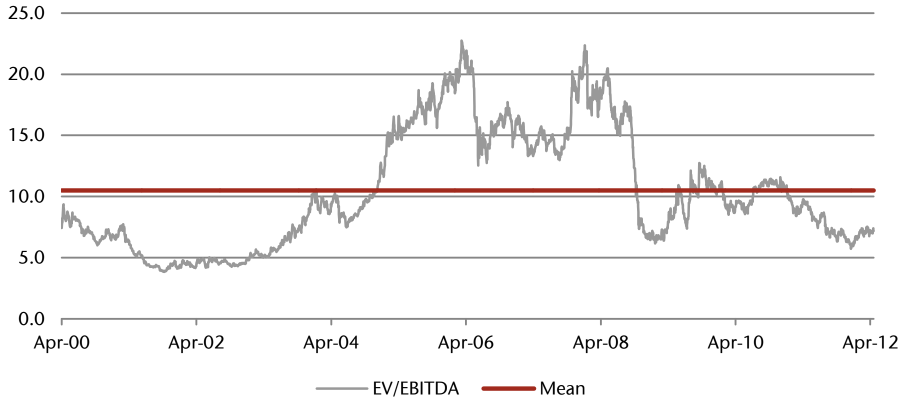
Bharat Forge currently trades at a significant discount to its historical trading range on most valuation parameters. The stock has seen continued derating since 2008 as investors have been concerned about low returns on overseas investments as well as lower capacity utilization in domestic capacity. We believe there is now a case for rerating if some of these issues are resolved or reverse.

Exhibit 32: P/E (x) valuation



Source: Bloomberg, Jefferies estimates

Exhibit 33: EV/EBITDA (x)

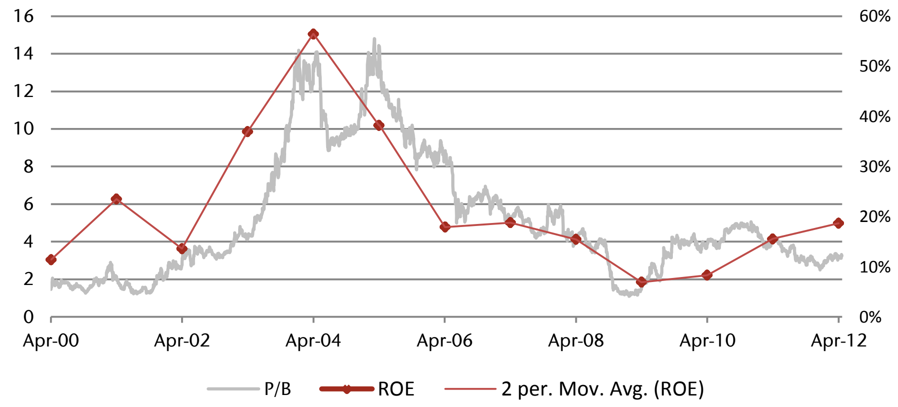


Source: Bloomberg, Jefferies estimates

Similar to the earnings-based multiples, the P/BV has also been derated along with falling RoE (in turn a function of lower asset utilization and higher investments in subsidiaries). This will likely reverse as RoEs expand to over 20% by FY14E.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 34: P/B to RoE



Source: Bloomberg, Jefferies

We use SOTP methodology to value Bharat Forge. We value the standalone business at 16x FY14E, at a discount to its historical average multiple. We value its investment in subsidiaries and JVs at 0.5x BV to capture the low return ratios being generated currently. At our PT, the stock would trade at an EV/EBIDTA of 8.6x FY14E, a 20% discount to its long-term average multiple.

Exhibit 35: BHFC valuation

Rs./share	Value
FY14E EPS	26.5
P/E	16
Value	423.4
Investments in subs	34.7
P/BV	0.5
Value	17.3
TP	440.7

Source: Jefferies

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Risks

The primary risk to our estimates and price target is any cash call from its subsidiaries and JVs. Such a need will arise if: a) the management is unable to find a remedial solution, especially to its US operations; b) delays in execution in it power equipment JVs; and c) general global slowdown in auto markets.

The bigger risks to the multiples arise from management actions on new investments

The bigger risks to the multiples arise from management actions on new investments. Our core investment thesis is based on slowdown in expansion, resulting in increasing asset utilisation. While there might be justifiable opportunities, we believe that the company has to first demonstrate the profitability of the existing capacities and ventures that it has already created, generate cash flows and pay down debt. Any new expansion, unless backed by immediate revenue potential, is likely to result in derating of the stock.

Every 1% depreciation of currency adds about 2.5% to its EPS

Currency is another major risk for the company. With nearly 47% of standalone sales being exports, Bharat Forge can be a significant beneficiary of rupee depreciation. Every 1% depreciation of currency adds about 2.5% to its EPS (assuming material prices remain same). If one assumes metal costs also move along with currency, every 1% depreciation in rupee results in1.7% gain in EPS.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Management

Mr. B.N. Kalyani, Chairman & Managing Director

Mr. Kalyani joined Bharat Forge in 1972. He is known to have pioneered the export of automobile components from India to China in 2002. He also serves on the boards of many companies and represents industry in several institutions in India and abroad. Mr. Kalyani is an Engineering Graduate from the Birla Institute of Technology, Pilani, and post graduate from the Massachusetts Institute of Technology, USA

Mr. Amit B.Kalyani, Executive Director

Mr. Amit B. Kalyani an Executive Director of Bharat Forge since 2004. He has considerable exposure to technological advancements in various fields and especially in Information Technology. Mr. Kalyani holds BE in Mechanical Engineering from Bucknell University, Pennsylvania, U.S.A.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Financials

Exhibit 36: Bharat Forge standalone P&L

Y/E MARCH (Rs mn)	2010	2011	2012E	2013E	2014E
Revenues	**18,564**	**29,473**	**36,763**	**42,814**	**47,898**
Expenditure					
Raw Material	8,496	13,662	16,386	19,121	21,135
% of Net Sales	*45.8%*	*46.4%*	*44.6%*	*44.7%*	*44.1%*
Employee Cost	1,436	2,013	2,415	2,705	3,030
Change (%)		*40.2%*	*20.0%*	*12.0%*	*12.0%*
Manufacturing expenses	3,161	4,919	6,360	7,450	8,446
% of Net Sales	*17.0%*	*16.7%*	*17.3%*	*17.4%*	*17.6%*
Other expenses	1,378	2,037	2,500	2,875	3,306
% of Net Sales	*7.4%*	*6.9%*	*6.8%*	*6.7%*	*6.9%*
EBITDA	**4,370**	**7,202**	**9,102**	**10,663**	**11,981**
Change (%)		*64.8%*	*26.4%*	*17.1%*	*12.4%*
% of Net Sales	*23.5%*	*24.4%*	*24.8%*	*24.9%*	*25.0%*
Depreciation	1,644	1,933	2,218	2,422	2,599
EBIT	2,726	5,269	6,884	8,241	9,382
Interest costs	1,028	1,214	1,275	1,105	935
Other Income	109	421	510	550	600
PBT	**1,807**	**4,476**	**6,119**	**7,686**	**9,047**
Tax	537	1,370	1,836	2,306	2,714
PAT	1,270	3,106	4,284	5,380	6,333
Adj. PAT	**1,270**	**3,106**	**4,284**	**5,380**	**6,333**
Change (%)		*144.5%*	*37.9%*	*25.6%*	*17.7%*
% of Net Sales	*6.8%*	*10.5%*	*11.7%*	*12.6%*	*13.2%*
EPS (Rs)	**5.7**	**13.3**	**18.4**	**22.5**	**26.5**

Source: Jefferies estimates, company data

Exhibit 37: Bharat Forge standalone balance sheet

Y/E MARCH (Rs mn)	2010	2011	2012E	2013E	2014E
Share Capital	445	466	466	479	479
Reserves	14,839	19,488	22,466	27,960	32,362
Net Worth	**15,284**	**19,954**	**22,931**	**28,439**	**32,841**
Deferred Tax	1,065	1,556	1,556	1,556	1,556
Loans	18,528	14,734	15,000	13,000	11,000
Capital Employed	**34,877**	**36,244**	**39,488**	**42,995**	**45,397**
Gross Fixed Assets	27,893	29,608	32,858	35,358	37,858
Less: Depreciation	10,132	11,976	14,193	16,615	19,214
Net Fixed Assets	**17,761**	**17,633**	**18,665**	**18,743**	**18,644**
Capital WIP	1,385	1,611	1,500	1,500	1,500
Investments	7,209	9,198	8,294	8,294	8,294
Curr.Assets, L & Adv.	**18,116**	**18,867**	**23,640**	**28,756**	**32,197**
Inventory	3,948	4,684	5,684	6,606	7,380
Sundry Debtors	3,072	4,197	5,036	5,865	6,561
Cash & Bank Balances	4,935	1,466	3,920	6,535	7,755
Loans & Advances	5,584	7,525	8,000	8,500	9,000
Others	578	995	1,000	1,250	1,500
Current Liab. & Prov.	**9,595**	**11,065**	**12,612**	**14,298**	**15,238**
Sundry Creditors	3,644	4,635	5,612	6,548	7,238
Other Liabilities	3,388	2,273	2,500	2,750	3,000
Provisions	2,563	4,157	4,500	5,000	5,000
Net Current Assets	**8,521**	**7,802**	**11,028**	**14,458**	**16,959**
Application of Funds	**34,877**	**36,244**	**39,488**	**42,995**	**45,397**

Source: Jefferies estimates, company data

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Exhibit 38: Bharat Forge standalone cash flow

Y/E MARCH (Rs mn)	2011	2012E	2013E	2014E
OP/(Loss) before Tax	5,269	6,884	8,241	9,382
Interest/Div. Received	421	510	550	600
Depreciation & Amort.	1,933	2,218	2,422	2,599
Direct Taxes Paid	-1,370	-1,836	-2,306	-2,714
(Inc)/Dec in Working Capital	-2,750	-772	-815	-1,281
CF from Oper. Activity	**3,502**	**7,005**	**8,092**	**8,587**
Other Items	491	0	0	0
CF after EO Items	3,993	7,005	8,092	8,587
(Inc)/Dec in FA+CWIP	-2,030	-3,139	-2,500	-2,500
(Pur)/Sale of Invest.	-1,989	904	0	0
CF from Inv. Activity	**-4,018**	**-2,235**	**-2,500**	**-2,500**
Issue of Shares	2,379	0	1,768	0
Inc/(Dec) in Debt	-3,794	266	-2,000	-2,000
Interest Paid	-1,214	-1,275	-1,105	-935
Dividends Paid	-815	-1,306	-1,641	-1,931
CF from Fin. Activity	**-3,444**	**-2,315**	**-2,978**	**-4,866**
Inc/(Dec) in Cash	**-3,469**	**2,454**	**2,615**	**1,221**
Add: Beginning Balance	4,935	1,466	3,920	6,535
Closing Balance	**1,466**	**3,920**	**6,535**	**7,755**

Source: Jefferies estimates, company data

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Company Description

Bharat Forge is India's largest manufacturer and exporter of automotive components and leading chassis component manufacturer. With manufacturing facilities spread across India, Europe, US & China, Bharat Forge manufactures a wide range of safety and critical components serving several sectors including automobile, power, oil and gas, rail & marine, aerospace, construction & mining.

Analyst Certification

I, Govindarajan Chellappa, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.
I, Rajasa Kakulavarapu, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.
Registration of non-US analysts: Govindarajan Chellappa is employed by Jefferies India Private Limited, a non-US affiliate of Jefferies & Company, Inc. and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies & Company, Inc., a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

Registration of non-US analysts: Rajasa Kakulavarapu is employed by Jefferies India Private Limited, a non-US affiliate of Jefferies & Company, Inc. and is not registered/qualified as a research analyst with FINRA. This analyst(s) may not be an associated person of Jefferies & Company, Inc., a FINRA member firm, and therefore may not be subject to the NASD Rule 2711 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.

As is the case with all Jefferies employees, the analyst(s) responsible for the coverage of the financial instruments discussed in this report receives compensation based in part on the overall performance of the firm, including investment banking income. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Aside from certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgement.

Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.
Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.
Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.
The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.
NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.
CS - Coverage Suspended. Jefferies has suspended coverage of this company.
NC - Not covered. Jefferies does not cover this company.
Restricted - Describes issuers where, in conjunction with Jefferies engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.
Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Conviction List Methodology

1. The aim of the conviction list is to publicise the best individual stocks ideas from the Jefferies Global Research.
2. Only stocks with a Buy rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

Risk which may impede the achievement of our Price Target

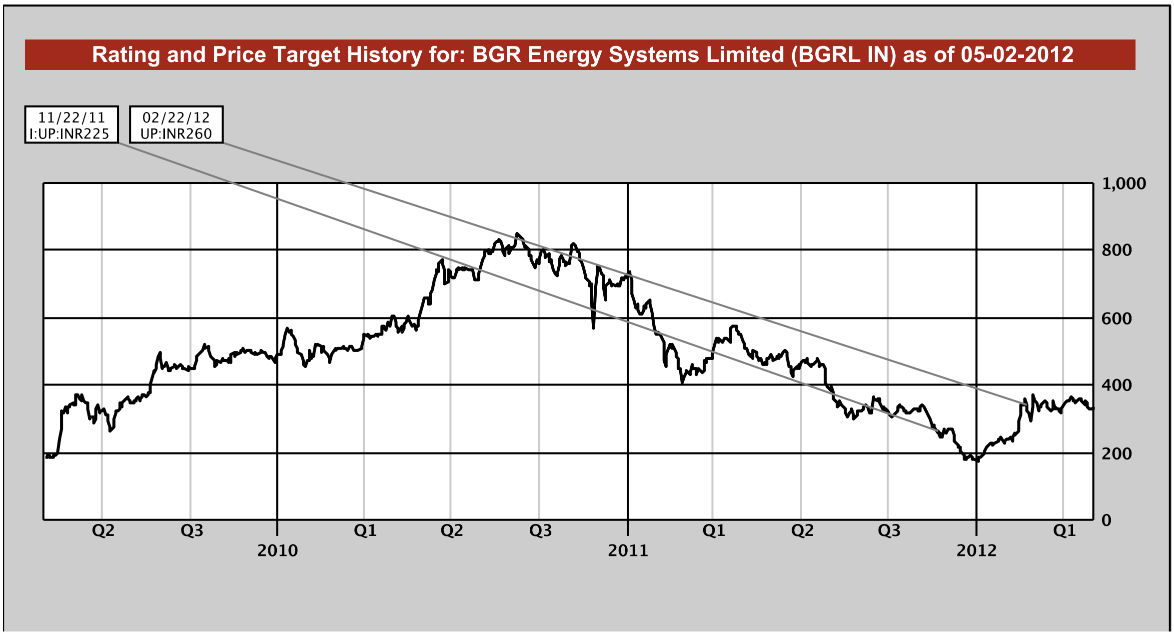
This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

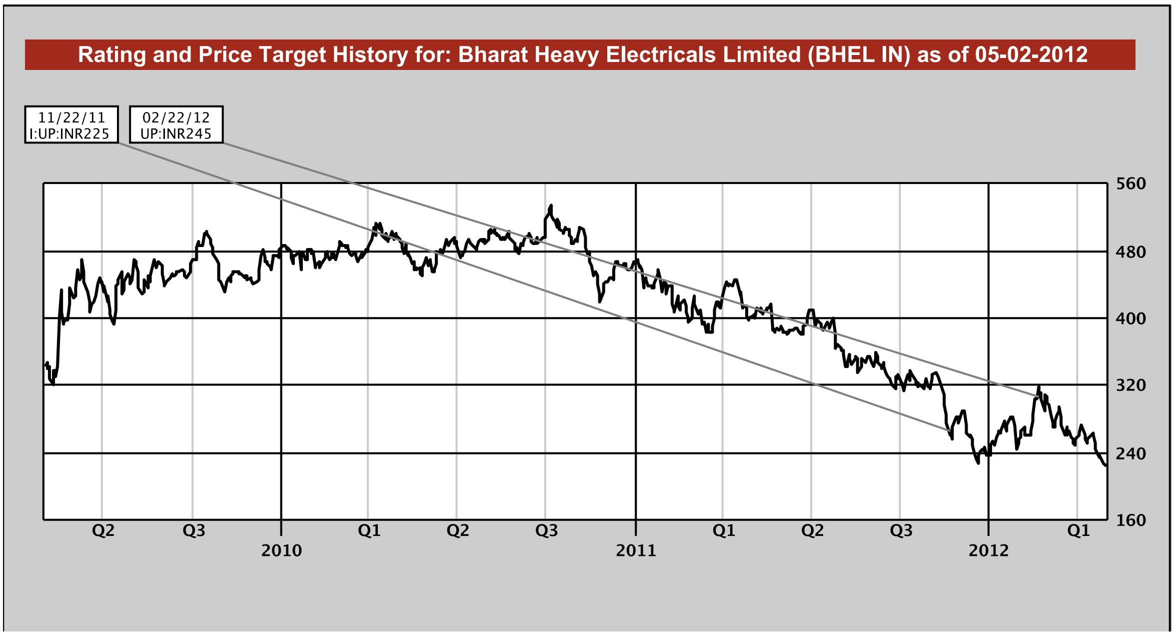
Other Companies Mentioned in This Report

- BGR Energy Systems Limited (BGRL IN: INR327.00, UNDERPERFORM)
- Bharat Forge (BHFC IN: INR322.00, BUY)
- Bharat Heavy Electricals Limited (BHEL IN: INR225.15, UNDERPERFORM)

Rating and Price Target History for: Bharat Forge (BHFC IN) as of 05-02-2012

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com





Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	797	52.78%	0	0.00%
HOLD	615	40.73%	0	0.00%
UNDERPERFORM	98	6.49%	0	0.00%

Other Important Disclosures

Jefferies Equity Research refers to research reports produced by analysts employed by one of the following Jefferies Group, Inc. ("Jefferies") group companies:

United States: Jefferies & Company, Inc., which is an SEC registered firm and a member of FINRA.

United Kingdom: Jefferies International Limited, which is authorized and regulated by the Financial Services Authority; registered in England and Wales No. 1978621; registered office: Vintners Place, 68 Upper Thames Street, London EC4V 3BJ; telephone +44 (0)20 7029 8000; facsimile +44 (0)20 7029 8010.

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Hong Kong: Jefferies Hong Kong Limited, which is licensed by the Securities and Futures Commission of Hong Kong with CE number ATS546; located at Suite 2201, 22nd Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Singapore: Jefferies Singapore Limited, which is licensed by the Monetary Authority of Singapore; located at 80 Raffles Place #15-20, UOB Plaza 2, Singapore 048624, telephone: +65 6551 3950.

Japan: Jefferies (Japan) Limited, Tokyo Branch, which is a securities company registered by the Financial Services Agency of Japan and is a member of the Japan Securities Dealers Association; located at Hibiya Marine Bldg, 3F, 1-5-1 Yuraku-cho, Chiyoda-ku, Tokyo 100-0006; telephone +813 5251 6100; facsimile +813 5251 6101.

India: Jefferies India Private Limited, which is licensed by the Securities and Exchange Board of India as a Merchant Banker (INM000011443) and a Stock Broker with Bombay Stock Exchange Limited (INB011438539) and National Stock Exchange of India Limited (INB231438533) in the Capital Market Segment; located at 42/43, 2 North Avenue, Maker Maxity, Bandra-Kurla Complex, Bandra (East) Mumbai 400 051, India; Tel +91 22 4356 6000.

This material has been prepared by Jefferies employing appropriate expertise, and in the belief that it is fair and not misleading. The information set forth herein was obtained from sources believed to be reliable, but has not been independently verified by Jefferies. Therefore, except for any obligation under applicable rules we do not guarantee its accuracy. Additional and supporting information is available upon request. Unless prohibited by the provisions of Regulation S of the U.S. Securities Act of 1933, this material is distributed in the United States ("US"), by Jefferies & Company, Inc., a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. Transactions by or on behalf of any US person may only be effected through Jefferies & Company, Inc. In the United Kingdom and European Economic Area this report is issued and/or approved for distribution by Jefferies International Limited and is intended for use only by persons who have, or have been assessed as having, suitable professional experience and expertise, or by persons to whom it can be otherwise lawfully distributed. Jefferies International Limited has adopted a conflicts management policy in connection with the preparation and publication of research, the details of which are available upon request in writing to the Compliance Officer. Jefferies International Limited may allow its analysts to undertake private consultancy work. Jefferies International Limited's conflicts management policy sets out the arrangements Jefferies International Limited employs to manage any potential conflicts of interest that may arise as a result of such consultancy work. For Canadian investors, this material is intended for use only by professional or institutional investors. None of the investments or investment services mentioned or described herein is available to other persons or to anyone in Canada who is not a "Designated Institution" as defined by the Securities Act (Ontario). For investors in the Republic of Singapore, this material is provided by Jefferies Singapore Limited pursuant to Regulation 32C of the Financial Advisers Regulations. The material contained in this document is intended solely for accredited, expert or institutional investors, as defined under the Securities and Futures Act (Cap. 289 of Singapore). If there are any matters arising from, or in connection with this material, please contact Jefferies Singapore Limited. In Japan this material is issued and distributed by Jefferies (Japan) Limited to institutional investors only. In Hong Kong, this report is issued and approved by Jefferies Hong Kong Limited and is intended for use only by professional investors as defined in the Hong Kong Securities and Futures Ordinance and its subsidiary legislation. In the Republic of China (Taiwan), this report should not be distributed. In India this report is made available by Jefferies India Private Limited. In Australia this information is issued solely by Jefferies International Limited and is directed solely at wholesale clients within the meaning of the Corporations Act 2001 of Australia (the "Act") in connection with their consideration of any investment or investment service that is the subject of this document. Any offer or issue that is the subject of this document does not require, and this document is not, a disclosure document or product disclosure statement within the meaning of the Act. Jefferies International Limited is authorised and regulated by the Financial Services Authority under the laws of the United Kingdom, which differ from Australian laws. Jefferies International Limited has obtained relief under Australian Securities and Investments Commission Class Order 03/1099, which conditionally exempts it from holding an Australian financial services licence under the Act in respect of the provision of certain financial services to wholesale clients. Recipients of this document in any other jurisdictions should inform themselves about and observe any applicable legal requirements in relation to the receipt of this document.

This report is not an offer or solicitation of an offer to buy or sell any security or derivative instrument, or to make any investment. Any opinion or estimate constitutes the preparer's best judgment as of the date of preparation, and is subject to change without notice. Jefferies assumes no obligation to maintain or update this report based on subsequent information and events. Jefferies, its associates or affiliates, and its respective officers, directors, and employees may have long or short positions in, or may buy or sell any of the securities, derivative instruments or other investments mentioned or described herein, either as agent or as principal for their own account. Upon request Jefferies may provide specialized research products or services to certain customers focusing on the prospects for individual covered stocks as compared to other covered stocks over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, the analyst has a reasonable basis and any inconsistencies can be reasonably explained. This material does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to herein and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of securities. None of Jefferies, any of its affiliates or its research analysts has any authority whatsoever to make any representations or warranty on behalf of the issuer(s). Jefferies policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis. Any comments or statements made herein are those of the author(s) and may differ from the views of Jefferies.

This report may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Jefferies research reports are disseminated and available primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com

Govindarajan Chellappa, Equity Analyst, +91 22 4224 6111, gchellappa@jefferies.com