

BHARAT FORGE LTD

Feb-19

Industry: Industrial Products

Cmp Rs. 486

Recommendation: Accumulate

Target Rs: 571

Key Data

Date	26.2.19
BSE Code	500493
NSE Code	BHARATFORG
52 Week High (Rs)	799
52 Week Low (Rs)	452
Market Cap (Rs Cr)	22716
Face Value	2

Dec Quarter Result Update:

BFL's Q3FY19 has delivered good results supported by robust operational performance on volume growth and average realization front.

Improvement in operational performance: Bharat Forge Ltd (BFL) had a great Q3, growth in sales by 21.7% YoY to Rs 1690 Cr was observed driven by volume growth and supported by strong growth in industrial segment especially Oil & gas segment, aerospace and defence. Increase in the EBITDA margins were observed which expanded by 113 bps YoY to 31.05% mainly due to improvement in RM cost and lower staff cost on favourable segmental diversification. Bottom line showed growth of 36.08% YoY increasing from Rs 228 Cr to Rs 310 Cr.

Industry Snapshot

Customers	Open
Market Presence	Global
Govt Regulations	Medium
Msearch View	Positive

Robust Order book: BFL secured new good orders be it domestic and export orders. Orders are worth \$6.5 bn from the Commercial Vehicle and Industrial sector. Management expects to deliver these orders in FY20E. Management has also guided that company currently has healthy order book in US class 8 truck segment which is sufficient to report marginal growth in the segment compared to CY18. So, any incremental orders received by BFL will be an added advantage. BFL has started supplying aluminium forging components (Chassis) to various OEMs and maintains strong outlook in the medium term on this division. It has strong visibility for Aluminium forging components and has also got new exports orders.

Shareholding Dec 2018

Promoters	45.76%
Public	54.24%

Capacity Expansion to aid growth: At present, BFL has planned to incur capex of Rs 750 Cr. This expansion will be done in forging and machinery segment at Baramati (Rs 400 Cr) and setting up a Greenfield facility at Nellore (Rs 200 Cr) for auto and industrial components and rest towards investments and maintenance capex. Both these facilities are nearing to their completion and likely to commence commercial production in Q2FY20 which aid its organic growth in the medium term.

Promoters/ Management

Mr. B N Kalyani	Chairman/MD
Mr. G K Agarwal	Deputy MD
Mr. Kishore Saleore	CFO
Mr. B P Kalyani	Ex Director
Mr. Amit Kalyani	Ex Director

Strong traction in Export & domestic Industrials: During Q3FY19 BFL's export business grew by 35%. This growth was primarily supported by oil & gas, construction and mining segment and North American Class 8 orders. North American oil & gas industry is likely to remain robust on the back of increased oil production and shale gas industry supporting BFL's industrial business. BFL has guided for CY19E US Class-8 truck sales of 335,000 units Vs 320,000 units FY18. BFL's domestic business grew by 18%. This growth was supported primarily by industrial segment with sales of Rs 270 Cr. BFL's India based industrial business is also expected to sustain growth on account of the overall pickup in the industrial and infrastructure activity in the country.

Key Ratios

P/E	21.48
ROE	20%
P/Bv	4.33
Ev/EBITDA	12.18x

Mview:

We believe Bharat forge is well placed and available at attractive valuation compared to last years. We expect order to build from H2FY20 with only relief being that the domestic CV industry could see some pre buying related to BS VI norms before March 2020. Q3 reported significant revenue growth, riding on a product mix, and maintained its operating profitability. For investment the stock is available at significantly discounted levels on the back of weak demand outlook and market volatility and corrected almost 40% from its 52-week high, making valuations attractive for long term. On valuation parse BFL is currently trading at 19x times and 17x times FY19E and FY20E projected consolidated earnings, respectively. Hence we recommend investors to "Accumulate" with a Target of Rs.571 with potential upside of 23%.

Price Chart



About the Company:

Bharat Forge Ltd (BFL) is a Pune based Indian multinational company. It is a flagship company of Kalyani Group, which has significant presence in the automotive components sector in India. BFL is involved in automotives, power, oil and gas, construction & mining, locomotive, marine and aerospace industries. It is one of the largest commercial forging companies in the world in terms of capacity and revenue, with presence in automotive as well as non-automotive component sectors with wide domain knowledge in design and engineering of highly critical automotive and non-automotive components. They are the country's largest manufacturer and exporter of automotive components and leading chassis component manufacturer.

Research Team

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QUARTERLY FINANCIAL OVERVIEW

Profit & Loss Statement (Rs Cr)

Particulars	Q3FY19	Q3FY18	YoY	Q2FY19	QoQ	9MFY19	9MFY18	YoY
Revenue from operations	1692	1390	21.73%	1679	1%	4851	3906	24%
Expenses								
Cost of raw materials	681	517	32%	663	3%	1900	1380	38%
change in inventories	-57	-22		-7		-86.3	-23	
employee benefit expense	122	111	10%	122	0%	367	324	13%
excise duty	0	0		0		0	57	
other expenses	421	368	14%	467	-10%	1281	1049	22%
Total expenses	1167	974	20%	1245	-6%	3462	2787	24%
EBITDA	525	416	26%	435	21%	1389	1119	24%
EBITDA %	31.05%	29.92%		25.88%		28.64%	28.65%	
depreciation	91	81	12%	91	-1%	264	236	12%
other income	48	22	118%	34	42%	116	84	37%
finance cost	14	14	-5%	32	-58%	71	55	30%
PBT	469	343	37%	345	36%	1170	913	28%
tax	159	115		117		398	306	
PAT	310	228	36.08%	228	36%	772	607	27%
PAT %	18.32%	16.39%		13.56%		15.92%	15.54%	
EPS	6.65	4.90		4.88		16.57	13.03	

Source: bseindia.com

TECHNICAL TREND



Source: investing.com



MSEARCH

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Msearch's Recommendation (Absolute Performance)

Buy : > 20% within the next 12 Months

Accumulate : 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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