

CMP (INR) (As on 18th Feb 2019)	467
Previous Target (INR)	834
Current Target (INR)	698
Upside(%)	49
Recommendation	<b>Strong Buy</b>

BSE Code	500493
NSE Code	BHARATFORG
Reuters Ticker	BFRG.NS
Bloomberg Ticker	BHFC.IN

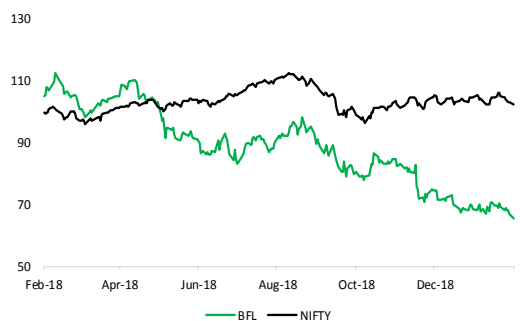
### Stock Scan

Market cap (INR Cr.)	21403
Outstanding Shares (Cr.)	46.56
Face Value (INR)	2.00
Dividend Yield(%)	0.98
TTM P/E (x)	28.07
Industry P/E (x)	25.46
Debt/Equity	0.57
Beta vs. Sensex	1.18
52 Week High/ Low (INR)	799/457
Avg. Daily Vol. (NSE)/1 yr.	12,45,060

### Shareholding Pattern (%)

	Dec-2018	Sep-2018	Jun-2018
Promoters	45.76	45.76	45.75
Institutions	31.88	32.52	33.21
Non-institutions	22.37	21.72	21.05

### Stock vs. Nifty (Relative Returns)



Research Analyst

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### Company Overview

Bharat Forge Limited (BFL), the Pune based Indian multinational is a technology driven global leader in metal forging, having a transcontinental presence across nine manufacturing locations globally, serving several sectors including automotive, power, oil and gas, construction & mining, rail, marine, aerospace and defence. The Company is India's largest exporter of auto components. It has manufacturing facilities spread across India, Germany, USA, France and Sweden.

### Key Highlights

- Bharat Forge Ltd has posted a Standalone revenue of INR1692 crores, increased by 22%YoY basis. Company's EBITDA (ex OI) was higher by 26% YoY basis to INR526 crores. It has reported a Net Profit of INR310 crores in this quarter, a rise of 36% YoY basis.
- The Shipment Tonnage for Q3FY19 is 66,764 v/s 65,050 in Q3FY18, a rise of 19%.
- Gross Profit margin has gone down by 119 bps YoY to 63%. This reflects the company has managed to pass on the Raw material inflation but with a lag of one month.
- EBITDA margins have improved by 113 bps to 31.1% on the back of favourable foreign exchange movement and effective cost control measures taken.
- Other Income in Q3FY19 was more than 2 times YoY to INR48 crores.
- PBT before Exchange Gain/loss was INR430 crores in Q3FY19 as against INR338 crores in Q3FY18.

### Exhibit 1: Financial Performance at a glance (Consolidated)

Particluars (INR Cr.)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	6,396	8,358	9,536	10,515	11,080
Growth	-6.1%	30.7%	14.1%	10.3%	5.4%
EBITDA	1,251	1,723	2,283	2,523	2,649
EBITDA Margin	19.6%	20.6%	23.9%	24.0%	23.9%
Net Profit	704	754	1,238	1,472	1,594
Net Profit Margin	11.0%	9.0%	13.0%	14.0%	14.4%
EPS*	15.12	16.19	26.59	31.61	34.24
BVPS*	88.27	99.91	117.91	139.86	163.63
P/E (x)*	30.9	28.8	17.6	14.8	13.6
P/BV (x)*	5.3	4.7	4.0	3.3	2.9
EV/EBITDA (x)*	19.2	13.9	10.3	9.1	8.2
ROE	17.0%	16.0%	22.4%	22.4%	20.8%
ROCE	11.0%	13.4%	17.9%	18.4%	17.6%

\*figures adjusted with Bonus

Source: Company Data, SMIFS Research

- The Company's Long term Borrowings have been at similar levels of INR138.7 crores from 31st March 2018 and Debt/ Equity ratio has increased from 0.54x to 0.57x.
- Domestic Revenue grew by 16.8% YoY to INR674 crores and Export revenue grew by 25% YoY to INR975 crores.

Domestic Revenue (INR Cr.)					
Segment	Q3FY19	Q2FY19	Q3FY18	QoQ %	YoY %
Commercial Vehicles	269.5	289.4	266.1	-7	1
Industrial	269	274.8	204.1	-2	32
Passenger Vehicle	60.8	60.7	55.9	0	9
<b>Total</b>	<b>599.3</b>	<b>624.9</b>	<b>526.1</b>	<b>-4</b>	<b>14</b>

Domestic Revenue mix			
Region	Q3FY19	Q2FY19	Q3FY18
Commercial Vehicles	45%	46%	51%
Industrial	45%	44%	39%
Passenger Vehicle	10%	10%	11%

International Revenue (INR Cr.)					
Segment	Q3FY19	Q2FY19	Q3FY18	QoQ %	YoY %
Commercial Vehicles	421	421	345	0	22
Industrial	463	403	342	15	35
Passenger Vehicle	92	120	93	-23	-2
<b>Total</b>	<b>976</b>	<b>943</b>	<b>781</b>	<b>3</b>	<b>25</b>

International Revenue mix			
Region	Q3FY19	Q2FY19	Q3FY18
Commercial Vehicles	43%	45%	44%
Industrial	47%	43%	44%
Passenger Vehicle	9%	13%	12%

International Revenue mix			
Region	Q3FY19	Q2FY19	Q3FY18
America	68%	70%	70%
Europe	27%	27%	25%
Others	5%	3%	5%
<b>Total Export (INR Cr.)</b>	<b>975.5</b>	<b>943.4</b>	<b>781.1</b>

Source: Company Data

- The Industrial sector has seen a healthy growth of 32% YoY and the percentage share in total revenue has increased to 46% in Q3FY19 as compared with Q3FY18.
- Total Income from the Overseas subsidiaries have been higher by 14% to INR816 crores. However, EBITDA from these subsidiaries have fallen by 17% to INR53.4 crores due to emission related issues in Europe.

**Exhibit 2: Financial Performance**
**INR Cr.**

Particulars	Quarter Ended (standalone)					Nine months ended		
	Dec-18	Dec-17	YoY(%)	Sep-18	QoQ(%)	Dec-18	Dec-17	YoY(%)
<b>Net Revenue</b>	<b>1693</b>	<b>1391</b>	<b>22%</b>	<b>1679</b>	<b>1%</b>	<b>4851</b>	<b>3849</b>	<b>26%</b>
COGS	623	496	26%	656	-5%	1814	1357	34%
Employee benefit expenses	122	111	10%	122	0%	367	324	13%
Other expenses	421	368	14%	467	-10%	1281	1049	22%
<b>EBITDA</b>	<b>526</b>	<b>416</b>	<b>26%</b>	<b>434</b>	<b>21%</b>	<b>1389</b>	<b>1119</b>	<b>24%</b>
<b>EBITDA Margin</b>	<b>31%</b>	<b>30%</b>	<b>113bps</b>	<b>26%</b>	<b>520bps</b>	<b>29%</b>	<b>29%</b>	<b>-44bps</b>
Finance Cost	14	14	-5%	32	-58%	71	55	30%
Depreciation & Amortisation	91	81	12%	91	-1%	264	236	12%
Other Income	48	22	118%	34	42%	116	84	37%
<b>PBT</b>	<b>469</b>	<b>343</b>	<b>37%</b>	<b>345</b>	<b>36%</b>	<b>1,169</b>	<b>913</b>	<b>28%</b>
<b>PBT margin</b>	<b>28%</b>	<b>25%</b>	<b>306bps</b>	<b>20.5%</b>	<b>721bps</b>	<b>24%</b>	<b>24%</b>	<b>39bps</b>
Tax Expense	160	115	39%	117	36%	398	306	30%
<b>PAT</b>	<b>309.8</b>	<b>228.2</b>	<b>36%</b>	<b>227.5</b>	<b>36%</b>	<b>771.8</b>	<b>607.0</b>	<b>27%</b>
<b>PAT Margin</b>	<b>18%</b>	<b>16%</b>	<b>190bps</b>	<b>14%</b>	<b>476bps</b>	<b>16%</b>	<b>16%</b>	<b>14bps</b>
<b>EPS</b>	<b>6.7</b>	<b>4.9</b>	<b>36%</b>	<b>4.9</b>	<b>36%</b>	<b>16.6</b>	<b>13.0</b>	<b>27%</b>

Source: Company Data &amp; SMIFS Research

**Exhibit 3: Actual v/s Estimate**

Stewart and Mackertich Estimates			Q3FY19	INR Cr.
Particulars	Actual	Estimates	Variance (%)	Remarks
Net Revenue	1693	1692	0.0%	Strong performance from Industrial segment and favourable foreign exchange movement has led to positive variance in Profitability
EBITDA	526	455	15.6%	
EBITDA margin(%)	31.1%	26.9%	418bps	
Net Profit	310	246.0	25.9%	
Net Profit margin(%)	18.3%	14.5%	377bps	

Source: Company Data &amp; SMIFS Research

## Conference Call Highlights

**The management is optimistic on the CY2019 production levels to stay at similar levels of CY2018 on the back of huge orders that are in the pipeline.**

**Nellore and Baramati units to commission from Q1FY20. The management expects a INR1000 cr of incremental revenue from these units within 3 years from their commissioning.**

**The company has strong visibility for Aluminum forging components and has also got new exports orders.**

- The current order intake for North American class 8 trucks is 18-24 months ahead from production time. Hence, the management is optimistic on the CY2019 production levels to stay at similar levels of CY2018 on the back of huge orders that are in the pipeline.
- The significant jump in realization per ton is due to pass on facility of Raw Material inflation and also some new components being launched which caters higher realization.
- The management has mentioned that the domestic CV market is going through a phase of de-stocking and expect things to normalize from Q1 of FY20. Also, the management expects the pre-buy due to BS VI norms to start from July onwards.
- Industrial growth has been supported by high growth in Aerospace & Defence, Oil & Gas and Agri. The management expects a run rate of USD40 m per quarter from this sector.
- Nellore and Baramati units to commission from Q1FY20. The management expects a INR1000 cr of incremental revenue from these units within 3 years from their commissioning.
- The management has stated that USD realization in Q3FY19 is just below INR71.
- The company is currently running at an 80% capacity. The management expects the utilisation levels to stay at similar levels.
- The company has started supplying aluminum forging components (Chassis) to various OEMs and maintains strong outlook in the medium term on this division.
- The company has strong visibility for Aluminum forging components and has also got new exports orders.

## Change in Estimates

- We lower our estimates for FY19E, FY20E and FY21E on the back of weak visibility in Commercial Vehicle space both in Domestic market as well as Global market.
- We expect that lower Crude Oil prices could also keep the capex in Oil & Gas sector subdued in US.

Particulars (Consolidated)	FY19E			FY20E			FY21E		
	Revised	Old	Change	Revised	Old	Change	Revised	Old	Change
Net Revenue	9536	9734	-2%	10515	11137	-5.6%	11080	12768	-13.2%
EBITDA	2283	2223	2.7%	2523	2675	-5.7%	2649	3071	-13.7%
EBITDA margin (%)	23.9%	22.8%	110bps	24.0%	24.0%	-3bps	23.9%	24.1%	-14bps
PAT	1238	1194	3.7%	1472	1582	-7.0%	1594	1899	-16.1%
PAT margin (%)	13.0%	12.3%	72bps	14.0%	14.2%	-21bps	14.4%	14.9%	-49bps

## Outlook and Valuation

The outlook for the Commercial Vehicle (CV) segment has started to tip off both in the export & domestic market and expected to taper down going further. For Bharat Forge CV segment contributes the largest chunk in the revenue pie, hence, the growth numbers are expected to slowdown in the next couple of years on back of weakening CV demand. Also new Axle load norms and liquidity crunch in Domestic market has dented the sales in CV space, we expect this to recover slightly as the new BS VI norms gets implemented. We expect a surge in Pre-buy of new vehicles in Domestic market to start from Q2FY20 as the new new norms would make vehicles costlier by 15-20%.

On the other hand the company is transforming into a leader in innovation and technology in the forging space. Niche technology such as Aluminum forgings are fast finding application due to strict emission norms and thrive towards higher fuel efficiency. This would give the company a strong edge to capitalise the upcoming upgradation in forging technology.

The company has also invested in EV space and developed Turbochargers for industrial use. Aerospace & Defence business has started to contribute meaningful revenues and expected to ramp up in coming future. Overall the company is well diversified to sustain any slight uncertainties. Also, recovery in the Industrial segment would keep the revenues in this segment robust in the upcoming quarters.

**Due to weak visibility in CV space globally, we reduce our price target to INR698 by assigning 20.3x to FY21E EPS of 34.24.**

Please find below the link of our previous report:

Date: 26th Nov

CMP: 573

Target Price: 834

[https://www.smifs.com/files/reports/636788520463660615\\_Stewart%20%20Mackertich%20Q2FY19%20Result%20Analysis%20on%20Bharat%20Forge%20Ltd.pdf](https://www.smifs.com/files/reports/636788520463660615_Stewart%20%20Mackertich%20Q2FY19%20Result%20Analysis%20on%20Bharat%20Forge%20Ltd.pdf)

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Stock Recommendation	Expected absolute returns (%) over 12 months
Strong Buy	>20%
Buy	between 12% and 20%
Accumulate	between 6% and 12%
Hold	between 0% and 6%
Sell	0 to <-10%
Neutral	No Rating
Stock Recommendation	Expected absolute returns (%) over 12 months

## Bloomberg Ticker for Stewart & Mackertich Research: SMIF<Enter>

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