

Bharat Forge

Performance Highlights

Y/E March - Standalone (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)
Net Sales	1,117	1,138	(1.9)	1,129	(1.0)
EBITDA	321	325	(1.0)	346	(7.1)
EBITDA margin (%)	28.8	28.5	30 bp	30.7	(190 bp)
Adjusted PAT	175	179	(2.0)	195	(10.4)

Source: Company, Angel Research

For 2QFY2016, Bharat Forge Ltd (BFL)'s results have come in below estimates. The top-line declined marginally, led by a steep decline in industrial exports which is owing to weakness in the oil and gas segment. A subdued top-line and adverse mix (industrial exports have high machining component) negated most of the benefits of lower steel prices. Given the subdued top-line, the net profit too declined marginally on a yoy basis.

Top-line declines marginally: After seven consecutive quarters of double-digit growth, BFL's revenues declined by 2% yoy to ₹1,117cr during the quarter. The decline was led by the export segment which dipped by 9%. Industrial segment exports declined sharply by 32% yoy due to weakness in the oil and gas sector. The domestic market, in contrast, grew a healthy 9% yoy led by the non-auto segment, which reported a growth of 20% yoy.

Subdued topline and adverse mix impacts profitability: BFL's revenues were under pressure during the quarter, which led to operating deleverage. Further, the product mix worsened given the decline in the industrial export segment which levied pressure on profitability. The net profit, at ₹175cr, declined by 2% yoy.

Outlook and valuation: The outlook in the near term remains subdued given the pressures in the industrial export segment (particularly in the oil and gas space). However, BFL expects the topline to return to double digit growth rate from FY2017 on back of expected recovery in the commercial vehicle export markets. Further, the ramp up in the passenger vehicle exports due to new order wins and addition of new customers and markets in the export industrial segments would enable BFL to outpace industry growth. **Given the focus on technological innovation and the ability to tap new segments and customer base, we have positive view on the stock. We assign Buy rating to the stock with a price target of ₹1,016 (based on 24x FY2017 earnings).**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	6,716	7,625	8,013	9,250
% chg	17.8	13.5	5.1	15.4
Net profit	267	646	819	986
% chg	17.3	142.0	26.8	20.3
EBITDA (%)	15.3	18.9	20.0	20.3
EPS (₹)	11.5	27.8	35.2	42.3
P/E (x)	40.3	26.3	24.5	20.4
P/BV (x)	7.5	5.8	4.8	4.0
RoE (%)	10.8	21.1	21.6	21.4
RoCE (%)	13.4	19.3	19.1	21.1
EV/Sales (x)	3.0	2.7	2.6	2.2
EV/EBITDA (x)	20.2	14.8	13.1	10.9

Source: Company, Angel Research

Please refer to important disclosures at the end of this report

BUY

CMP	₹862
Target Price	₹1,016

Investment Period	12 Months
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Stock Info

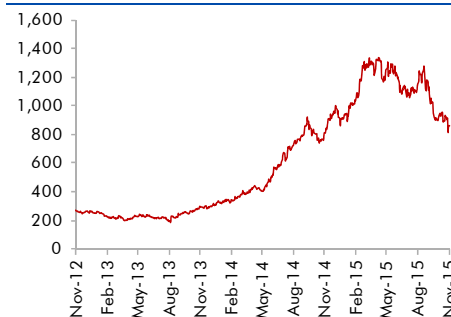
Sector	Auto Ancillary
Market Cap (₹ cr)	20,068
Net Debt (₹ cr)	1,187
Beta	1.2
52 Week High / Low	1,363/805
Avg. Daily Volume	243,839
Face Value (₹)	2.0
BSE Sensex	26,559
Nifty	8,051
Reuters Code	BFRG.BO
Bloomberg Code	BHFC@IN

Shareholding Pattern (%)

Promoters	46.7
MF / Banks / Indian FIs	21.6
FII / NRIs / OCBs	18.5
Indian Public / Others	13.2

Abs. (%)	3m	1yr	3yr
Sensex	(5.5)	(4.7)	41.6
Bharat Forge	(24.8)	6.1	219.0

3-year price chart



Source: Company, Angel Research

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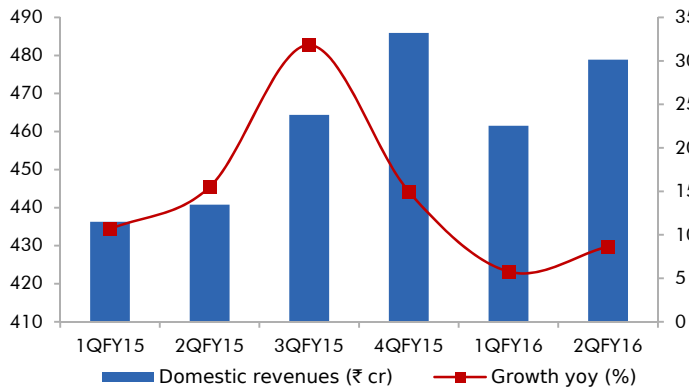
Exhibit 1: Financial performance (Standalone)

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Net Sales	1,117	1,138	(1.9)	1,129	(1.0)	2,245	2,126	5.6
Consumption of RM	407	456	(10.8)	398	2.4	805	816	(1.3)
(% of Sales)	36.5	40.1		35.3		35.9	38.4	
Staff Costs	92	81	14.0	92	(0.4)	185	160	15.1
(% of Sales)	8.2	7.1		8.2		8.2	7.5	
Manufacturing expenses	182	193	(5.5)	183	(0.2)	365	378	(3.5)
(% of Sales)	16.3	16.9		16.2		16.2	17.8	
Other Expenses	114	84	36.2	110	3.9	224	165	35.6
(% of Sales)	10.2	7.3		9.7		10.0	7.8	
Total Expenditure	795	814	(2.2)	782	1.7	1,578	1,518	3.9
Operating Profit	321	325	(1.0)	346	(7.1)	668	608	9.8
OPM (%)	28.8	28.5		30.7		29.7	28.6	
Interest	22	31	(29.1)	21	4.4	44	63	(30.9)
Depreciation	65	66	(1.6)	64	1.6	130	132	(1.9)
Other Income	25	30	(15.1)	29	(11.7)	54	54	0.2
PBT	259	257	0.9	289	(10.4)	549	467	17.5
(% of Sales)	23.2	22.6		25.6		24.4	22.0	
Provision for Taxation	84	78	7.6	94	(10.3)	178	144	24.3
(% of PBT)	32.5	30.5		32.5		32.5	30.7	
Extraordinary items	0	(4)	NA	0	NA	0	(4)	NA
Reported PAT	175	174	0.3	195	(10.4)	370	319	15.9
Adjusted PAT	175	179	(2.0)	195	(10.4)	370	324	14.5
Adj. PATM	15.7	15.7		17.3		16.5	15.2	
Equity capital (cr)	47	47		47		47	47	
Reported EPS (₹)	7.5	7.5	0.3	8.4	(10.4)	15.9	13.7	15.9
Adjusted EPS (₹)	7.5	7.7	(2.0)	8.4	(10.4)	15.9	13.9	14.5

Source: Company, Angel Research

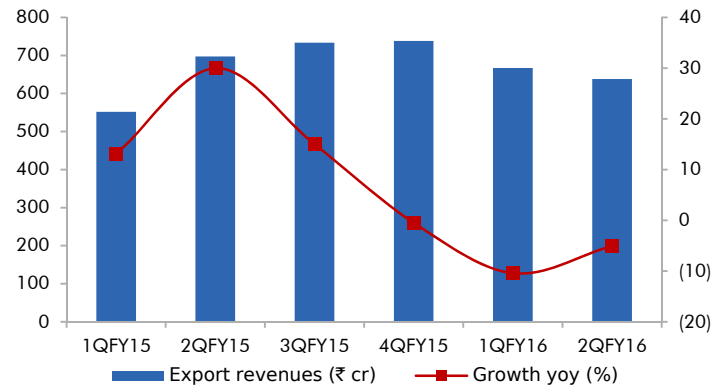
Standalone revenues under pressure due to steep decline in industrial exports: For 2QFY2016, standalone revenues were under pressure, declining by 2% yoy to ₹1,117cr, owing to a steep 9% yoy decline in export revenues. While the export automotive segment grew by a healthy 15% yoy due to ramp up in the passenger vehicle business, the export non-automotive segment declined sharply by 32% yoy due to slowdown in the oil and gas sector. In contrast, domestic revenues grew 8.6% yoy led by a strong 20% growth in the non-automotive segment. The domestic automotive segment revenues grew by 3% yoy. BFL's overall volumes grew 4% yoy, driven by the domestic segment; however, the net average realization declined 5.5% yoy on account of an adverse product-mix (decline in the high machining export industrial segment). The USD/INR realization on the exports front stood at ₹66.6/USD, up 1% qoq.

Exhibit 2: Domestic revenues continue to recover



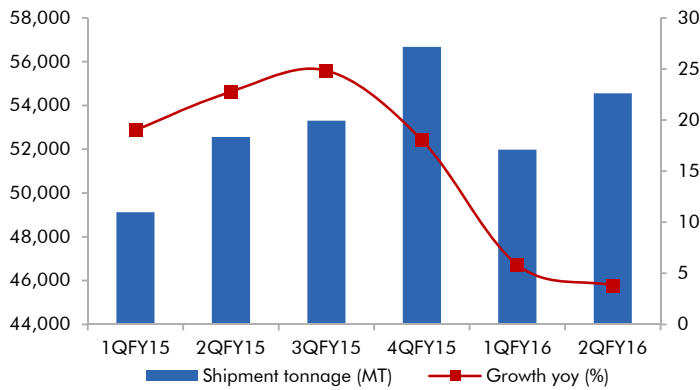
Source: Company, Angel Research

Exhibit 3: Exports remain sluggish



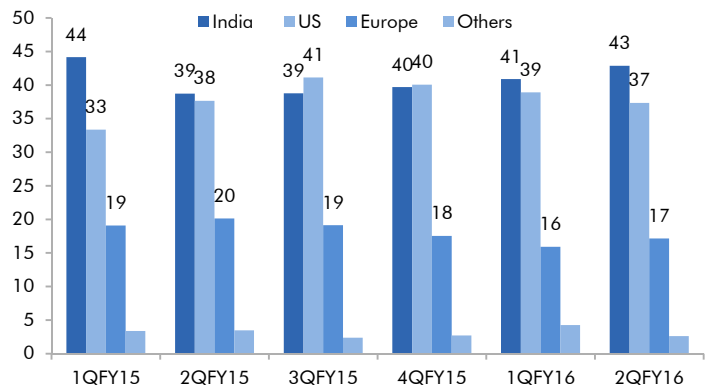
Source: Company, Angel Research

Exhibit 4: Volume growth dragged by exports



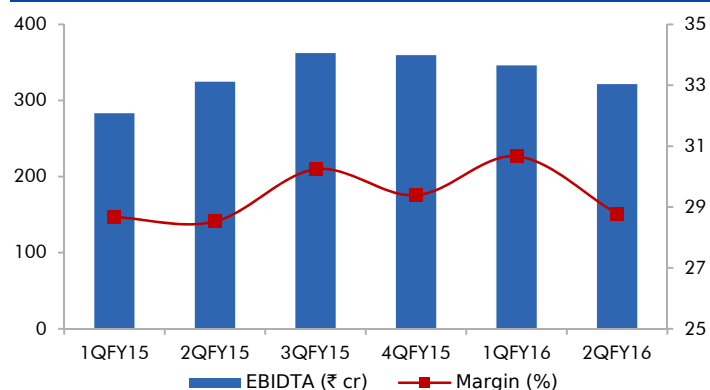
Source: Company, Angel Research

Exhibit 5: Geographical break-up of revenue

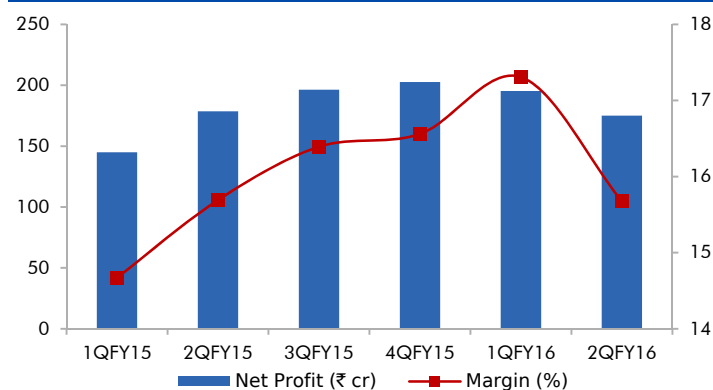


Source: Company, Angel Research

EBITDA margins up marginally yoy: On the operating front, EBITDA margins improved marginally by 30bp yoy to 28.8%, driven primarily by softness in steel prices. Raw material cost/sales declined 360bp yoy to 36.5%. However, the subdued top-line resulted in operating deleverage, thus leading to a 220bp yoy increase in other expenditure. As a result the benefits of lower commodity prices got negated. On a sequential basis, however, margins declined 190bp, mainly due to an adverse product mix. Led by a subdued top-line, the net profit declined marginally by 2% yoy to ₹175cr.

Exhibit 6: EBITDA margin grows marginally


Source: Company, Angel Research

Exhibit 7: Subdued top-line impacts profitability


Source: Company, Angel Research

Exhibit 8: Subsidiaries' performance

Y/E December – Overseas subsidiary (₹ cr)	July-Sep 15	July-Sep 14	% chg (yoy)	Apr-June 15	% chg (qoq)
Net Sales	549	543	1.0	601	(8.6)
EBITDA	36	31	14.7	38	(4.8)
EBITDA margin (%)	6.5	5.7	80 bp	6.3	20 bp
Profit before tax	(3)	1		0	

Source: Company, Angel Research

Overseas subsidiaries' performance remains subdued: The company's overseas subsidiaries' performance remained under pressure, given the weak global demand. The top-line at ₹549cr remained flat on a yoy basis. The margin improved 80bp yoy, given the cost control initiatives. However due to higher depreciation and interest expenses, the subsidiaries reported a loss at the PBT level.

Investment arguments

- **Automotive business to grow driven by domestic CV upcycle and ramp up in PV segment:** BFL is the leader in the domestic MHCV segment, commanding a market share of ~60%. BFL would be the beneficiary of an upcycle in the MHCV space (MHCV is likely to grow at 15% CAGR over FY2015-2018) due to economic recovery and huge pent up demand getting converted into sales. Also, BFL has received orders from two new passenger vehicle OEMs for supply to various platforms which would boost its revenues going ahead. Further, the US and the European CV segments are also expected to recover gradually, thus boosting demand.
- **Industrial segment to provide huge growth opportunity:** BFL aims to increase the share of the industrial segment from 45% of standalone revenues in FY2015 to 60%, going ahead. The government's "Make in India" initiative would result in localization in a host of sectors such as defence, aerospace, power, and metal & mining, which throws a huge opportunity for BFL. Also given the economic recovery, the domestic investment cycle is likely to improve which would provide impetus to the industrial segment. BFL is also tapping the industrial segment in export markets by introducing new products, which would boost growth for the company.
- **Well diversified business model:** BFL has a fairly diversified presence. Over the years it has enhanced revenue stream by entering new global markets and new segment particularly in the non-auto space. The share of the auto business declined from about 80% in FY2007 to about 55% currently. Also the contribution of India business has reduced from 60% in FY2010 to about 40% currently. Given the broad-based presence, BFL has de-risked itself from possible sharp economic downturns in any particular region/segment.

Outlook and valuation

The outlook in the near term remains subdued given the pressures in the industrial export segment (particularly in the oil and gas space). However, BFL expects the topline to return to double digit growth rate from FY2017 on back of expected recovery in the commercial vehicle export markets. Further, the ramp up in the passenger vehicle exports due to new order wins and addition of new customers and markets in the export industrial segments would enable BFL to outpace industry growth. **Given the focus on technological innovation and the ability to tap new segments and customer base, we have positive view on the stock. We assign Buy rating to the stock with a price target of ₹1,016 (based on 24x FY2017 earnings).**

Company background

Bharat Forge, a global forging conglomerate, is the largest exporter of automotive components from India and a leading chassis component manufacturer in the world. The company manufactures a wide range of safety and critical components for passenger cars, SUVs, LCVs, MHCVs and tractors through its facilities spread across locations globally - India (4), Germany (3) and Sweden (1). BHFC also produces forged and machined components for non-automotive industries, such as power generation, marine, oil & gas, railways and construction. The automotive industry currently contributes ~55% to the company's consolidated revenue; although through diversification BHFC expects the share of the automotive industry's revenue to fall to ~40%.

Profit and loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	6,279	5,702	6,716	7,625	8,013	9,250
% chg	23.4	(9.2)	17.8	13.5	5.1	15.4
Total expenditure	5,283	4,933	5,686	6,184	6,410	7,372
Net raw material costs	2,913	2,531	2,461	2,884	2,965	3,423
Employee expenses	780	801	789	905	962	1,110
Other	1,589	1,601	2,436	2,395	2,484	2,840
EBITDA	996	769	1,030	1,441	1,603	1,878
% chg	(41.0)	(22.8)	33.9	39.9	11.2	17.2
(% of total op. income)	15.9	13.5	15.3	18.9	20.0	20.3
Depreciation & amortization	302	336	357	362	391	420
EBIT	694	433	673	1,078	1,211	1,458
% chg	(51.6)	(37.6)	55.3	60.2	12.3	20.3
(% of total op. income)	11.1	7.6	10.0	14.1	15.1	15.8
Interest and other charges	186	191	169	136	132	119
Other income	92	113	125	137	153	153
Recurring PBT	600	355	629	1,080	1,232	1,491
% chg	(55.4)	(40.8)	77.0	71.8	14.2	21.0
Extraordinary items	0	0	77	39	0	0
PBT (reported)	600	355	551	1,041	1,232	1,491
Tax	180	173	210	359	413	506
(% of PBT)	29.9	48.6	38.1	34.5	33.5	33.9
Profit before MI	420	182	341	682	819	986
Share of associate	0	0	0	0	0	0
Minority interest (MI)	7	(45)	(3)	(3)	0	0
PAT (reported)	413	228	344	685	819	986
ADJ. PAT	413	228	267	646	819	986
% chg	(65.6)	(44.9)	17.3	142.0	26.8	20.3
(% of total op. income)	6.6	4.0	4.0	8.5	10.2	10.7
Basic EPS (₹)	17.8	9.8	14.8	29.4	35.2	42.3
Adj. EPS (₹)	17.8	9.8	11.5	27.8	35.2	42.3
% chg	(65.6)	(44.9)	17.3	142.0	26.8	20.3

Balance sheet statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	47	47	47	47	47	47
Reserves & surplus	2,137	2,210	2,637	3,398	4,109	5,005
Shareholders' funds	2,184	2,256	2,683	3,444	4,155	5,051
Minority interest	196	164	17	(2)	(2)	(2)
Total loans	2,419	2,333	2,007	2,365	2,065	1,865
Deferred tax liability	89	135	164	164	164	164
Other long term liabilities	22	38	18	60	60	60
Long term provisions	88	107	116	120	120	120
Total Liabilities	4,997	5,033	5,006	6,150	6,561	7,257
APPLICATION OF FUNDS						
Goodwill	3	3	6	54	54	54
Gross block	5,019	5,644	5,389	5,645	6,095	6,545
Less: Acc. depreciation	2,370	2,737	2,860	3,070	3,461	3,881
Net Block	2,649	2,907	2,528	2,575	2,634	2,663
Capital work-in-progress	517	632	583	859	759	659
Investments	445	416	801	496	529	585
Long term loans and adv.	392	253	236	240	240	240
Other noncurrent assets	51	37	26	23	23	23
Current assets	3,277	3,190	3,354	3,988	4,469	5,458
Cash	634	555	423	682	591	822
Loans & advances	733	892	1,027	1,418	1,731	2,158
Other	1,909	1,743	1,905	1,887	2,146	2,478
Current liabilities	2,337	2,406	2,529	2,084	2,146	2,425
Net current assets	939	784	826	1,903	2,323	3,033
Total Assets	4,997	5,033	5,006	6,150	6,561	7,257

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	600	375	706	1,118	1,232	1,510
Depreciation	331	368	123	209	391	420
Change in working capital	218	77	(174)	(818)	(511)	(479)
Others	(31)	94	27	(0)	-	-
Direct taxes paid	(180)	(173)	(210)	(359)	(413)	(506)
Cash Flow from Operations	938	741	472	150	700	945
(Inc./Dec. in fixed assets	(834)	(740)	305	(532)	(350)	(350)
(Inc./Dec. in investments	(184)	29	(385)	306	(33)	(56)
Other income	(67)	139	17	(4)	-	-
Cash Flow from Investing	(1,085)	(572)	(63)	(230)	(383)	(406)
Issue of equity	-	-	-	-	-	-
Inc./Dec. in loans	532	(86)	(325)	357	(300)	(200)
Dividend paid (Incl. Tax)	(108)	(92)	(109)	(108)	(108)	(108)
Others	(40)	(69)	(107)	91	0	-
Cash Flow from Financing	385	(247)	(541)	339	(408)	(308)
Inc./Dec. in cash	237	(78)	(133)	259	(91)	231
Opening Cash balances	396	634	555	423	682	591
Closing Cash balances	634	555	423	682	591	822

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	48.6	81.1	40.3	26.3	24.5	20.4
P/CEPS	28.1	34.4	23.5	17.8	16.6	14.3
P/BV	9.2	8.9	7.5	5.8	4.8	4.0
Dividend yield (%)	0.5	0.4	0.5	0.5	0.5	0.5
EV/Sales	3.3	3.7	3.0	2.7	2.6	2.2
EV/EBITDA	21.5	27.9	20.2	14.8	13.1	10.9
EV / Total Assets	4.3	4.3	4.2	3.5	3.2	2.8
Per Share Data (₹)						
EPS (Basic)	17.7	10.6	21.4	32.7	35.2	42.3
EPS (fully diluted)	17.8	9.8	11.5	27.8	35.2	42.3
Cash EPS	30.7	25.1	36.7	48.3	52.0	60.4
DPS	4.0	3.4	4.0	4.0	4.0	4.0
Book Value	93.8	96.9	115.2	147.9	178.5	216.9
Dupont Analysis						
EBIT margin	11.1	7.6	10.0	14.1	15.1	15.8
Tax retention ratio	0.7	0.5	0.6	0.7	0.7	0.7
Asset turnover (x)	1.5	1.3	1.5	1.5	1.4	1.5
ROIC (Post-tax)	11.9	5.0	9.2	14.1	14.2	15.7
Cost of Debt (Post Tax)	6.1	4.1	4.8	4.1	4.0	4.0
Leverage (x)	0.6	0.6	0.4	0.3	0.3	0.2
Operating ROE	15.5	5.6	11.1	17.4	17.1	17.4
Returns (%)						
ROCE (Pre-tax)	15.1	8.6	13.4	19.3	19.1	21.1
Angel ROIC (Pre-tax)	15.9	9.7	14.7	19.9	20.5	22.8
ROE	20.0	10.3	10.8	21.1	21.6	21.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.3	1.1	1.2	1.4	1.4	1.5
Inventory / Sales (days)	55	71	59	50	52	52
Receivables (days)	46	46	40	41	46	46
Payables (days)	126	147	128	91	89	87
WC cycle (ex-cash) (days)	18	15	22	58	79	87
Solvency ratios (x)						
Net debt to equity	0.6	0.6	0.3	0.3	0.2	0.1
Net debt to EBITDA	1.3	1.8	0.8	0.8	0.6	0.2
Interest Coverage (EBIT / Int.)	3.7	2.3	4.0	8.0	9.2	12.2

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Disclosure of Interest Statement

	Bharat Forge
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)