

Retail Equity Research
Bharat Forge Ltd
Automobile – Auto Ancillaries

Buy

12M Investment Period Rating as per Mid cap

CMP Rs.495 TARGET Rs. 570 RETURN 15% ↑
(Closing: 17-11.-20)

BSE CODE : 500493 NSE CODE: BHARATFORG
BLOOMBERG CODE: BHFC:IN SENSEX : 43,953

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Higher revenue visibility for long term.

Bharat Forge Ltd (BFL) is a leading player in the forgings industry. The company is serving several sectors including automobile, power, oil and gas, rail & marine, aerospace & defence, construction, mining, etc.

- Total revenues in Q2FY21 declined by 30%YoY. The sharp decline is on account on continued weakness in the export Industrial business and downturn in the Commercial Vehicle sector.
- Margin expanded to pre-covid level at 12.1% owing to continuous restructuring and cost control measure. However a significant expansion will be possible only from a sustained recovery.
- The Indian government's decision to restrict the import of defence equipment, enhances the order procurement visibility in BFL's artillery guns in 2-3 years.
- With the gradual re-opening of the economy, the upcoming festive season, revival of CV financing and improvement in the supply chain, the industry is expected to show some improvement in H2FY21.
- Amid crisis, we believe on a 2yr fwd basis the demand visibility looks attractive, owing to the growth coming from the defence sector. We value BFL at 15x EV/EBITDA on FY23E and recommend buy rating

Delayed pickup globally dampens growth

Total revenues in Q2 FY21 declined by 30%YoY. The sharp decline is on account on continued weakness in the export Industrial business and downturn in the Commercial Vehicle sector. Margin expanded to pre-covid level at 12.1% owing to continuous restructuring and cost control measure. However a significant expansion will be possible only from a sustained recovery. We expect strong traction in Agriculture, Mining, Construction, defence and Railways. Additionally, with the gradual re-opening of the economy, the upcoming festive season, revival of CV financing and improvement in the supply chain, the industry is expected to show some improvement in H2FY21. There are certain element of exports that are impacted such as Oil and Gas due to overall demand cycle, but on the other side Heavy truck and passenger car market both in Europe and US are quite good and expect a slow, steady recovery

Domestic defence procurement to benefit BFL

The Indian government announcement to restrict the import of 101 defence equipment's under the Make in India platform enhance the order procurement visibility for BFL's artillery guns. Over the last few years BFL has invested in technology to transform from a component supplier to sub assembly defense system supplier. It has developed new platform such as Artillery guns, air defense systems and armored vehicles. BFL's artillery guns has four different platform and cleared four different stage of trial and is now at a step closer to procurement. Once the procurement begins the company will be able to supply these products on a Global basis. On the Aerospace the company has already set the target to reach 1000cr by FY2023 from current Rs400cr.

Newer initiatives to support long term growth

Market shift towards light weighting components represents a considerable growth opportunity for BFL in coming years both in terms of top-line and margin. We expect the incremental revenue from new business/products to grow from current 5% of sales to 15% in the next 2 years. Sustained and meaning macroeconomics revival, pick up in infra projects, implementation of scrappage policy are the critical factors for the revival of domestic Industry.

Valuations

BFL's strategy to shift to new technological products and ramp-up in Aluminium forging in US & India for new product development will bring value migration per vehicle in the long run. Near term auto outlook looks challenging, but we believe that the company is well placed with new products in non auto sector. Amid crisis, we believe on a 2yr fwd. basis the demand visibility looks attractive and expect margin expansion owing to the growth coming from the defence sector and sustained recovery in the auto space. We value BFL at 15x EV/EBITDA on FY23E and recommend buy rating.

Company Data			
Market Cap (cr)	Rs.23,047		
Enterprise Value (cr)	Rs.26,421		
Outstanding Shares (cr)	46.6		
Free Float	54.2%		
Dividend Yield	0.7%		
52 week high	Rs.539		
52 week low	Rs.208		
6m average volume (cr)	0.4		
Beta	1.3		
Face value	2		
Shareholding (%)	Q4FY20	Q1FY21	Q2FY21
Promoters	45.8	45.8	45.8
FII's	20.7	22.1	22.1
MFs/Insti	15.7	15.2	13.3
Public	17.6	16.9	18.8
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-2.8%	73.5%	10.2%
Absolute Sensex	14.7%	39.7%	7.8%
Relative Return	-17.5%	33.8%	2.4%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	8,056	5,821	7,299
Growth (%)	-20.6	-27.7	25.4
EBITDA	1,115	664	1,299
EBITDA Margin(%)	13.8	11.4	17.8
PAT Adj.	428	106	545
Growth (%)	-58.5	-75.2	412.3
Adj. EPS	9.2	2.3	11.7
Growth (%)	-58.5	-75.2	412.3
P/E	53.8	216.7	42.3
P/B	4.4	4.8	4.8
EV/EBITDA	23.7	39.0	19.7
ROE (%)	8.0	2.1	11.4
D/E	0.7	0.6	0.5

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q2FY21	Q2FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	1376	2155	-36.2	1,154	19.2
EBITDA	166	334	-50.2	-14	-
EBITDA margins	12.1	15.5	-340bps	-1.2	-
Depreciation	152	134	13.9	140	8.6
EBIT	14	200	-92.9	-154	-
Interest	14.4	36.5	-60.5	36.8	-60.8
Other Income	33	52	-35.7	45	-25.6
Exceptional Items	-60	0	0	0	0
PBT	27	164	-83.3	-146	-
Tax	29	3	-	-19	-
Share of profit from Associate	0	-7	0	-2	-
Minority Interest	0	0	0	0	0
Reported PAT	-1	205	-100.6	-129	-
Adjustments	60	0	0	0	0
Adj PAT	5	205	-97.7	-129	-
No. of Shares	46.6	46.6	-	46.6	-
EPS (Rs)	0.1	4.4	-97.7	-2.8	-

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	5,608	7,236	5,821	7,299	3.8	0.9
EBITDA	695	1158	664	1299	-4.5	12.2
Margins (%)	12.4	16.0	11.4	17.8	-100bps	180bps
Adj. PAT	87	462	106	545	22.2	17.9
EPS	1.9	9.9	2.3	11.7	20.2	18.2

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	10,146	8,056	5,821	7,299	9,228
% change	21.4	-20.6	-27.7	25.4	26.4
EBITDA	2,056	1,115	664	1,299	1,799
% change	19.3	-45.8	-40.5	95.8	38.5
Depreciation	521	548	573	591	620
EBIT	1,535	567	91	708	1,180
Interest	127	171	107	111	93
Other Income	203	188	204	219	203
PBT	1610	505	188	816	1290
% change	34.6	-68.7	-62.8	334.7	58.2
Tax	566	112	56	253	400
Tax Rate (%)	35.2	22.3	30.0	31.0	31.0
Reported PAT	1,033	349	106	545	872
Adj.	0	-79	0	0	0
Adj. PAT	1,033	428	106	545	872
% change	21.6	-58.5	-75.2	412.3	60.1
No. of shares (cr)	46.6	46.6	46.6	46.6	46.6
Adj EPS (Rs)	22.2	9.2	2.3	11.7	18.7
% change	21.6	-58.5	-75.2	412.3	60.1
DPS (Rs)	5.3	12.2	12.2	12.2	12.2

CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	2131	1052	761	1,407	1,910
Non-cash adj.	-448	-97	60	-101	-243
Changes in W.C	-1,061	1,070	624	-410	-164
C.F. Operation	623	2,026	1,445	896	1,503
Capital exp.	-1133	-1101	-147	-235	-330
Change in inv.	-521	-449	36	367	482
Other invest.CF	0	0	0	0	0
C.F - Investment	-1,166	-1,239	-204	67	182
Issue of equity	-	-	-	-	-
Issue/repay debt	1,062	106	-400	-600	-1000
Dividends paid	-245	-566	-566	-566	-566
Other finance.CF	-127	-171	-107	-111	-93
C.F - Finance	690	-632	-1,073	-1,277	-1,659
Chg. in cash	146	155	168	-314	26
Closing cash	349	504	672	358	385

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	349	504	672	358	385
Accounts Receivable	2,148	1,494	1,084	1,360	1,719
Inventories	1,845	1,735	1,100	1,360	1,574
Other Cur. Assets	658	575	415	520	556
Investments	2186	2166	2,049	1,830	1,306
Gross Fixed Assets	8,451	9,244	9,544	9,844	10,144
Net Fixed Assets	3,561	3,806	3,533	3,241	2,922
CWIP	831	1,143	1,050	984	1,014
Intangible Assets	63	60	0	0	0
Def. Tax (Net)	-206	-51	-60	-101	-165
Other Assets	0	0	0	0	0
Total Assets	11,435	11,432	9,843	9,553	9,311
Current Liabilities	620	1000	646	799	986
Provisions	207	271	136	170	215
Debt Funds	3,773	3,878	3,478	2,878	1,878
Other Liabilities	0	0	0	0	0
Equity Capital	93	93	93	93	93
Reserves & Surplus	5,376	5,159	4,699	4,678	4,984
Shareholder's Fund	5,469	5,252	4,792	4,771	5,077
Total Liabilities	11,435	11,432	9,843	9,553	9,311
BVPS	116	112	103	102	109

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	20.3	13.8	11.4	17.8	19.5
EBIT margin (%)	15.1	7.0	1.6	9.7	12.8
Net profit mgn.(%)	10.2	5.3	1.8	7.5	9.5
ROE (%)	20.3	8.0	2.1	11.4	17.7
ROCE (%)	12.7	5.7	2.0	7.7	12.8
W.C & Liquidity					
Receivables (days)	73.9	82.5	80.8	61.1	60.9
Inventory (days)	57.6	81.1	88.9	61.5	58.0
Payables (days)	48.4	54.3	57.1	43.1	41.3
Current ratio (x)	6.8	3.8	4.7	4.2	3.9
Quick ratio (x)	4.0	2.0	2.7	2.2	2.1
Turnover & Leverage					
Gross asset T.O (x)	1.2	0.9	0.6	0.8	0.9
Total asset T.O (x)	1.0	0.7	0.5	0.8	1.0
Int. covge. ratio (x)	12.1	3.3	0.8	6.4	12.7
Adj. debt/equity (x)	0.5	0.7	0.6	0.5	0.3
Valuation					
EV/Sales (x)	2.6	3.3	4.4	3.5	2.7
EV/EBITDA (x)	12.9	23.7	39.0	19.7	13.6
P/E (x)	22.3	53.8	216.7	42.3	26.4
P/BV (x)	4.2	4.4	4.8	4.8	4.5

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
9 th November 17	Buy	792
26 th December 17	Buy	810
13 th March 18	Hold	789
29 th May 18	Buy	753
31 st August 18	Buy	751
28 th December 18	Buy	579
18 th February 19	Hold	494
24 th May 19	Buy	518
19 th August 19	Reduce	376
12 th November 19	Reduce	414
17 th February 20	Hold	507
14 th July 20	Hold	375
19 th August 20	Hold	535
17 th November 20	Buy	570

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time.



The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not * received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that the I Saji John Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange board of India.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

