

Retail Equity Research
Bharat Forge Ltd
Automobile – Auto Ancillaries

Reduce

12M Investment Period

Rating as per Mid cap

CMP Rs. 435 TARGET Rs. 414 RETURN 5% ↓
(Closing: 11-11-19)

BSE CODE : 500493

NSE CODE: BHARATFORG

BLOOMBERG CODE: BHFC:IN

SENSEX : 40,346

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Margin to remain under pressure

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, construction, mining, etc.

- Q2FY20 revenue de-grew by 17%YoY due to the slowdown in export (down by -18%YoY) & domestic segment by -36%YoY. The negativity in growth is largely contributed by both CV and industrial segment.
- EBITDA margin declined by 440bps with 320bps increase in input cost, and lower utilization resulted in higher fixed cost.
- BFL's new value-added order received on aluminum forging is on track from the new AP plant. Further implementation of BS-VI norms will lead to an increase in content per vehicle in FY21.
- BFL's de-risking strategy to Industrial sectors (especially defence) from weak auto sales & concentration on the new product development will provide cushion in the long run.
- However the slowdown in domestic CV, Oil & Gas, should weigh on its growth in the near term. .
- At CMP, we value BFL at 18x FY21E (1yr fwd basis) and maintain our Reduce rating with a revised target price of Rs414.

Weak CV demand dampens revenue growth

Q2FY20 revenue de-grew by 17%YoY due to the slowdown in export (down by -18%YoY) & domestic segment by -36%YoY. The negativity in growth is largely contributed by both CV(-37%YoY) and industrial segment(-29.4%YoY). The overall volume remain negative at -23% due to lower demand. Additionally a fragile demand environment for domestic autos and lower visibility towards per-buying against BS-VI and impending dip in the US class 8 trucks have collectively marred the near term automotive outlook for the company. EBITDA margin declined by 440bps due to higher input cost and lower product mix. PAT de-grew by -19%YoY despite reduction in corporate tax rate.

Newer initiatives to support long term growth

During the year BFL has secured business win of \$50 million across sectors and geographies, and large proportion of the wins are on new product development. We expect the incremental revenue from new business/products to grow from current 5% of sales to 15% in next 2 years. The subdued freight rate and increase in funding cost coupled with the recent revision in axle load norms has impact sentiment in short term. However, we expect domestic CV business to show some pick up owing to pre-buying ahead of BS-VI, and correct the current inventory levels of the OEM's.

Green Field Expansion – Preparing for future

Given its robust business outlook, BFL has undertaken a greenfield expansion plan of its forging and machinery capacity at Baramati by investing Rs400cr. The center for Light Weighting Technology (LWT) in AP is expected to be fully operational by Q4FY20. Having already secured contract for manufacturing critical component in Aluminum in the 1st phase itself, the facility will provide a fillip to growth as it gradually ramps up. BFL's Aluminum forging facility in North Carolina valuing a capital investment of 400cr is expected to be a game changer in the LWT for the future vehicles globally.

Valuations

BFL's strategy to shift into new technological products owing to change in regulation, and ramp-up in Aluminium forging in US for new product development will bring value migration per vehicle in the long run. However, We expect that the earnings to remain under pressure for near term due to lower visibility for both domestic CV and Industrial export, which together constitutes 34% of revenue mix. In addition, significant decline in US truck sales in FY20 will further add to the woes in FY21, which constitutes 29% of sales. We lower our Revenue and PAT estimate for FY20 by 7% & 8% to factor in sharp contraction in volume growth & margin. We value BFL at 18x FY21E EPS and maintain our rating as Reduce with a revised target of Rs414.

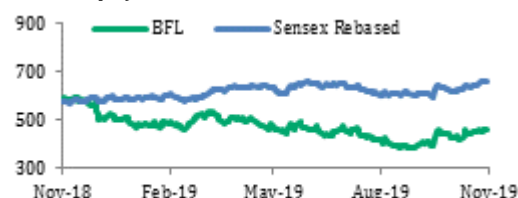
Company Data

Market Cap (cr)	Rs.20,253
Enterprise Value (cr)	Rs.24,026
Outstanding Shares (cr)	46.6
Free Float	54%
Dividend Yield	0.7%
52 week high	Rs.603
52 week low	Rs.378
6m average volume (cr)	0.1
Beta	0.89
Face value	Rs2

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	45.8	45.8	45.8
FII's	19.3	19.3	19.2
MFs/Insti	12.5	12.5	13.9
Public	22.4	22.4	21.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	10.6%	0.6%	-20.7%
Absolute Sensex	8.7%	7.2%	15.0%
*Relative Return	1.8%	-6.6%	-35.7%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	10,146	9,245	10,236
Growth (%)	13.3	-8.9	10.7
EBITDA	2,056	1,544	1,832
EBITDA Margin(%)	20.3	16.7	17.9
PAT Adj.	1,033	813	1,058
Growth (%)	21.6	-21.3	30.1
Adj.EPS	22.2	17.5	22.7
Growth (%)	21.6	-21.3	30.1
P/E	19.6	24.9	18.9
P/B	3.7	3.4	3.0
EV/EBITDA	11.5	15.9	13.0
ROE (%)	20.3	14.1	16.4
D/E	0.5	0.5	0.4

Saji John
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q2FY20	Q2FY19	YoY Growth %	H1FY19	H2FY20	YoY Growth %
Sales	2,155	2,597	-17.0	5,011	4,483	-10.5
EBITDA	331	517	-35.5	1,000	744	-25.6
EBITDA margins	15.5	19.9	-440bps	20.0	16.6	-340bps
Depreciation	134	137	-1.6	262	272	3.8
EBIT	200	382	-47.5	738	473	-35.9
Interest	37	37	-	69	82	18.8
Other Income	52	40	29.3	81	97	20.3
Exceptional Items	-	-	-	-	-	-
PBT	216	385	-43.9	750	488	-34.9
Tax	3.1	130	-	257	97	-62.1
Share of profit from Associate	-7.3	-1.3	-	-1.6	-12.9	-
Minority Interest	0	0	0	0	0	0
Reported PAT	205	253	-18.7	492	377	-23.2
Adjustments	0	0	-	0	0	-
Adj PAT	205	253	-18.7	492	377	-23.2
No. of Shares	46.6	46.6	-	46.6	46.6	-
EPS (Rs)	5.4	4.4	-18.7	10.6	8.1	-23.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY19E	FY20E
Revenue	9,891	10,322	9,245	10,236	-6.5	-0.1
EBITDA	1,879	1,992	1,544	1,832	-17.8	-8.0
Margins (%)	19.0	19.3	16.7	17.9	(230bps)	(140bps)
Adj. PAT	881	973	813	1072	-7.7	10.1
EPS	18.9	20.9	17.5	23.0	-7.7	10.1

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	6,396	8,358	10,146	9,245	10,236
% change	-6.1	30.7	21.4	-8.9	10.7
EBITDA	1,251	1,723	2,056	1,544	1,832
% change	-11.2	37.7	19.3	-24.9	18.7
Depreciation	452	467	521	544	557
EBIT	799	1,256	1,535	1,000	1,276
Interest	100	107	127	156	165
Other Income	119	142	203	203	256
PBT	947	1,196	1,610	1,047	1,367
% change	6.7	26.3	34.6	-35.0	30.5
Tax	249	442	566	209	273
Tax Rate (%)	26.3	36.9	35.2	20.0	20.0
Reported PAT	698	754	1,033	813	1,072
Adj.	128	-95	0	0	0
Adj. PAT	569	849	1,033	813	1,072
% change	20.6	49.2	21.6	-21.3	31.8
No. of shares (cr)	23.3	46.6	46.6	46.6	46.6
Adj EPS (Rs)	12.2	18.2	22.2	-21.3	31.8
% change	20.6	49.2	21.6	17.5	23.0
DPS (Rs)	3.6	5.4	5.3	5.3	5.3

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1399	1663	2131	1591	1924
Non-cash adj.	-326	-298	-448	-38	-88
Changes in W.C	-21	-398	-1061	705	-269
C.F. Operation	1052	967	623	2259	1566
Capital exp.	-645	-584	-1133	-596	-350
Change in inv.	-78	-269	-521	-388	-622
Other invest.CF	0	0	0	0	0
C.F - Investment	-684	-814	-1166	-975	-972
Issue of equity	-	-	-	-	-
Issue/repay debt	-212	-4	1062	450	450
Dividends paid	-84	-252	-245	-245	-245
Other finance.CF	-119	-101	-127	-156	-165
C.F - Finance	-401	-314	690	49	41
Chg. in cash	-69	-69	146	1333	635
Closing cash	288	203	349	1682	2317

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	288	203	349	1682	2317
Accounts Receivable	1342	1961	2148	1976	2187
Inventories	1075	1360	1845	1701	1857
Other Cur. Assets	514	583	658	659	729
Investments	1892	2027	2186	2537	3207
Gross Fixed Assets	7124	7809	8451	9101	9451
Net Fixed Assets	3221	3439	3561	3667	3460
CWIP	400	344	831	840	840
Intangible Assets	109	60	63	0	0
Def. Tax (Net)	-261	-215	-206	-222	-242
Other Assets	0	0	0	0	0
Total Assets	8580	9762	11435	12838	14355
Current Liabilities	1101	848	620	1038	1133
Provisions	185	195	207	215	238
Debt Funds	2321	2711	3773	4223	4673
Other Liabilities	0	0	0	0	0
Equity Capital	47	93	93	93	93
Reserves & Surplus	4080	4588	5376	5944	6770
Shareholder's Fund	4126	4681	5469	6037	6863
Total Liabilities	8580	9762	11435	12838	14355
BVPS	86	99	116	130	147

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	19.6	20.6	20.3	16.7	17.9
EBIT margin (%)	12.5	15.0	15.1	10.8	12.5
Net profit mgn.(%)	8.9	10.2	10.2	8.8	10.5
ROE (%)	14.5	19.3	20.3	14.1	16.6
ROCE (%)	9.1	12.0	12.7	9.4	11.0
W.C & Liquidity					
Receivables (days)	78.3	72.1	73.9	81.4	74.2
Inventory (days)	59.1	53.2	57.6	70.0	63.4
Payables (days)	48.0	47.5	48.4	53.1	49.4
Current ratio (x)	3.0	4.4	6.8	5.3	5.7
Quick ratio (x)	1.5	2.6	4.0	3.5	4.0
Turnover & Leverage					
Gross asset T.O (x)	0.9	1.1	1.2	1.1	1.1
Total asset T.O (x)	0.8	0.9	1.0	0.8	0.8
Int. covge. ratio (x)	8.0	11.8	12.1	6.4	7.8
Adj. debt/equity (x)	0.5	0.3	0.5	0.5	0.4
Valuation					
EV/Sales (x)	3.5	2.7	2.4	2.6	2.4
EV/EBITDA (x)	18.0	13.3	11.7	15.9	13.6
P/E (x)	35.6	23.8	19.6	24.9	18.9
P/BV (x)	2.5	4.3	3.7	3.4	3.0

Recommendation summary (Last 3 Years)



Dates	Rating	Target
26-May-16	Accumulate	415
9-August-16	Buy	480
11 November 16	Hold	468
9 th February 17	Hold	540
29 th May 17	Buy	626
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

Source: Bloomberg, Geojit Research.

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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