

February 08, 2012

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Rating	Accumulate
Price	Rs308
Target Price	Rs345
Implied Upside	12.0%
Sensex	17,707
Nifty	5,368

(Prices as on February 08, 2012)

Trading data

Market Cap. (Rs bn)	71.7
Shares o/s (m)	232.8
3M Avg. Daily value (Rs m)	124.8

Major shareholders

Promoters	42.06%
Foreign	11.02%
Domestic Inst.	19.62%
Public & Other	27.30%

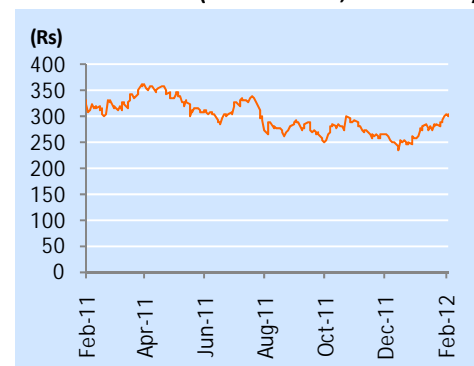
Stock Performance

(%)	1M	6M	12M
Absolute	18.5	13.8	(5.4)
Relative	6.9	9.6	(5.0)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	22.9	21.5	6.4
2014	27.7	25.7	7.6

Price Performance (RIC: BFRG.BO, BB: BHFC IN)



Source: Bloomberg

■ **PAT ahead of estimates on account of robust Top-line:** Bharat Forge (BFL) reported 21.1% YoY growth in its top-line at Rs9.4bn (PLe-Rs8.9bn) on account of an improvement of 29.2% YoY in export revenues at Rs4.6bn (Rs4.3bn in Q2FY12). Tonnage production for the quarter grew by 15.2% YoY to 55,412MT (53,740MT in Q2FY12). EBITDA grew by 26.2% YoY to Rs2.4bn (PLe- Rs2.1bn), whereas EBITDA margin improved 100bps YoY to 25.4% (Q2FY12-24.0%). EBITDA/kg grew by 9.6% YoY to Rs43.7/kg (Rs40.1/kg in Q2FY12), thereby, reflecting robustness of earnings. Due to lower interest expenses, PAT (adjusted for forex loss of Rs162m) grew by 46.8% to Rs1.18bn (PLe: Rs1.0bn).

■ **Non-Auto revenues increased by 12.7%:** Driven by higher contribution of the new non-auto facilities at Baramati, which grew by 55.5% YoY in revenues at Rs1.9bn (Rs1.8bn in Q2FY12), the overall non-auto business grew by 12.7% YoY to Rs 3.2bn (Rs3.3bn in Q2FY12). Non-auto contribution in standalone revenues now stands at ~34%.

■ **Overseas subsidiaries margins expand 170bps YoY:** Top-line, on a consolidated basis, grew by 14.4% YoY, with EBITDA performance improving by 43.1%. Overseas subsidiaries reported a top-line growth of 5.6% YoY to Rs6.6bn (Q2FY12 -Rs6.5bn), with an EBITDA margin of 5.5% for the quarter (Q2FY12-5.9%). Adj. PAT, on a consolidated basis grew by 41.6% YoY at Rs1.2bn

■ **Outlook and Valuation:** Operating leverage, coupled with higher utilization at the new non-auto facility in FY13E, will lead to EBITDA margins of ~25.5% on a standalone basis by FY13E. We value the company on SOTP basis, with standalone business valued at Rs317/share and subsidiaries/JVs valued at Rs26/share. With improving ROE and strong cash flows, we reiterate our 'Accumulate' rating on the stock.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	50,873	62,706	72,763	81,622
Growth (%)	52.9	23.3	16.0	12.2
EBITDA (Rs m)	7,851	10,834	13,096	15,213
PAT (Rs m)	2,976	4,400	5,625	6,816
EPS (Rs)	12.8	17.9	22.9	27.7
Growth (%)	1,756.4	40.0	27.8	21.2
Net DPS (Rs)	3.3	2.8	3.5	3.6

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	15.4	17.3	18.0	18.6
RoE (%)	17.4	20.2	21.0	20.7
RoCE (%)	10.4	13.3	14.6	16.0
EV / sales (x)	1.7	1.5	1.2	1.0
EV / EBITDA (x)	11.2	8.5	6.8	5.6
PE (x)	24.1	17.2	13.5	11.1
P / BV (x)	3.7	3.2	2.6	2.1
Net dividend yield (%)	1.1	0.9	1.1	1.2

Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Export	4,644	3,594	29.2	4,316	12,772	8,614	48.3
Domestic	4,971	4,311	15.3	4,909	14,767	13,139	12.4
Net Sales (inc. operational income)	9,412	7,770	21.1	9,100	27,088	21,257	27.4
Expenditure							
Raw material	4,124	3,538	16.6	4,116	12,091	9,651	25.3
<i>as % of net sales</i>	<i>43.8</i>	<i>45.5</i>		<i>45.2</i>	<i>45.2</i>	<i>45.2</i>	
Personnel Cost	596	518	15.0	633	1,819	1,464	24.2
<i>as % of net sales</i>	<i>6.3</i>	<i>6.7</i>		<i>7.0</i>	<i>6.7</i>	<i>6.9</i>	
Mfgr. Expenses	1,638	1,309	25.2	1,584	4,696	3,533	32.9
<i>as % of net sales</i>	<i>17.4</i>	<i>16.8</i>		<i>17.4</i>	<i>17.3</i>	<i>16.6</i>	
Other Expenses	663	512	29.4	581	1,825	1,387	31.5
<i>as % of net sales</i>	<i>7.0</i>	<i>6.6</i>		<i>6.4</i>	<i>6.7</i>	<i>6.5</i>	
Total Expenditure	7,022	5,876	19.5	6,914	20,430	16,035	27.4
EBITDA	2,390	1,893	26.2	2,186	6,658	5,223	27.5
<i>EBITDA margin (%)</i>	<i>25.4</i>	<i>24.4</i>		<i>24.0</i>	<i>24.6</i>	<i>24.6</i>	
Depreciation	558	496	12.5	539	1,614	1,454	11.0
EBIT	1,832	1,397	31.1	1,647	5,044	3,768	33.9
Net interest	322	301	6.8	310	932	920	1.2
Other Income	124	99	25.5	134	392	264	48.6
PBT	1,472	1,214	21.2	1,512	4,401	3,110	41.5
Total tax	450	388	16.0	448	1,331	1,008	32.0
<i>Total Tax rate (%)</i>	<i>30.6</i>	<i>31.9</i>		<i>29.6</i>	<i>30.2</i>	<i>32.4</i>	
Adj. Profit after tax	1,184	806	46.8	1,105	3,174	2,100	51.1
Extraordinary Income	(162)	20		(41)	(104)	2	
Reported Profit	1,022	826	23.6	1,064	3,070	2,102	46.1

Source: Company Data, PL Research

Exhibit 2: Q2FY12 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	16,020	14,001	14.4	15,593	47,443	36,575	29.7
EBITDA	2,710	1,893	43.1	2,566	7,906	5,700	38.7
<i>EBITDA margin (%)</i>	<i>16.9</i>	<i>13.5</i>		<i>16.5</i>	<i>16.7</i>	<i>15.6</i>	
Adjusted Profit	1,206	852	41.6	1,046	3,292	2,136	54.1

Source: Company Data, PL Research

Exhibit 1: SOTP Valuation

Particulars	Rs	Value / Share
Standalone operations		
FY13E EPS	21.1	
Valued at 15x FY13E earnings		317
JV with Alstom for supplying Power Equipments		
Investment by Bharat Forge (Rs m)	3,000	
Valued at 1.0x P/BV (Rs m)	3,000	
Per Share Value (Rs)		12
Subsidiaries Valuation		
FY13E Subsidiaries EBITDA (Rs m)	2,276	
Valued at 3.0x FY13E EV/EBITDA (Rs m)	6,829	
Debt (Rs m)	3,000	
Equity Value (Rs m)	3,829	
Per Share Value (Rs)		16
SOTP valuation (Rs / share)		345

Source: PL Research

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	50,873	62,706	72,763	81,622
Raw Material Expenses	24,216	29,633	34,289	38,194
Gross Profit	26,657	33,073	38,474	43,428
Employee Cost	6,365	7,418	8,450	9,171
Other Expenses	12,441	14,821	16,928	19,043
EBITDA	7,851	10,834	13,096	15,213
Depr. & Amortization	2,548	3,124	3,327	3,548
Net Interest	1,529	1,720	2,007	2,156
Other Income	594	527	660	720
Profit before Tax	4,368	6,517	8,422	10,230
Total Tax	1,402	1,967	2,672	3,239
Profit after Tax	2,966	4,550	5,750	6,991
Ex-Od items / Min. Int.	(10)	(58)	125	175
Adj. PAT	2,976	4,400	5,625	6,816
Avg. Shares O/S (m)	233.0	246.0	246.0	246.0
EPS (Rs.)	12.8	17.9	22.9	27.7

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	6,253	4,426	7,989	11,112
C/F from Investing	(3,865)	(2,540)	(3,050)	(3,049)
C/F from Financing	(5,255)	(991)	(2,933)	(8,178)
Inc. / Dec. in Cash	(2,867)	896	2,006	(115)
Opening Cash	5,977	3,109	4,005	6,012
Closing Cash	3,109	4,005	6,012	6,162
FCFF	(1,706)	268	2,916	5,890
FCFE	(5,283)	1,268	2,960	1,070

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	52.9	23.3	16.0	12.2
EBITDA (%)	131.9	38.0	20.9	16.2
PAT (%)	1,844.0	47.8	27.8	21.2
EPS (%)	1,756.4	40.0	27.8	21.2
Profitability				
EBITDA Margin (%)	15.4	17.3	18.0	18.6
PAT Margin (%)	5.9	7.0	7.7	8.4
RoCE (%)	10.4	13.3	14.6	16.0
RoE (%)	17.4	20.2	21.0	20.7
Balance Sheet				
Net Debt : Equity	0.8	0.7	0.5	0.2
Net Wrkng Cap. (days)	25	40	54	57
Valuation				
PER (x)	24.1	17.2	13.5	11.1
P / B (x)	3.7	3.2	2.6	2.1
EV / EBITDA (x)	11.2	8.5	6.8	5.6
EV / Sales (x)	1.7	1.5	1.2	1.0
Earnings Quality				
Eff. Tax Rate	32.1	30.2	31.7	31.7
Other Inc / PBT	13.6	8.1	7.8	7.0
Eff. Depr. Rate (%)	5.5	6.3	6.3	6.4
FCFE / PAT	(177.5)	28.8	52.6	15.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	19,530	23,930	29,555	36,371
Total Debt	18,950	19,950	19,995	15,175
Other Liabilities	2,863	3,078	3,325	3,605
Total Liabilities	41,343	46,959	52,874	55,151
Net Fixed Assets	27,662	27,888	27,712	27,314
Goodwill	—	—	—	—
Investments	3,668	4,668	5,868	7,068
Net Current Assets	9,566	14,368	19,260	20,735
<i>Cash & Equivalents</i>	<i>3,110</i>	<i>4,005</i>	<i>6,012</i>	<i>6,162</i>
<i>Other Current Assets</i>	<i>24,531</i>	<i>30,146</i>	<i>34,673</i>	<i>37,597</i>
<i>Current Liabilities</i>	<i>18,075</i>	<i>19,783</i>	<i>21,424</i>	<i>23,025</i>
Other Assets	446	34	34	34
Total Assets	41,342	46,959	52,874	55,151

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	8,216	8,577	9,100	9,412
EBITDA	1,989	2,084	2,186	2,390
<i>% of revenue</i>	<i>24.2</i>	<i>24.3</i>	<i>24.0</i>	<i>25.4</i>
Depr. & Amortization	478	517	539	558
Net Interest	294	300	310	322
Other Income	149	147	207	124
Profit before Tax	1,366	1,414	1,544	1,472
Total Tax	362	440	448	450
Profit after Tax	1,004	974	1,064	1,022
Adj. PAT	1,004	974	1,105	1,184

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Production - Auto (MT)	156,000	177,600	196,800	211,200
Production - New Non-Auto (MT)	45,000	72,500	85,000	106,250
New Non Auto Revenues (Rs m)	4,275	7,105	8,500	10,944
% of Standalone Revenues	14.5	19.3	20.0	22.4
Standalone Net Revenues (Rs m)	29,474	36,744	42,411	48,842
% of consolidated revenues	57.9	58.6	58.3	59.8
Subs. Net Revenues (Rs m)	21,400	25,962	30,352	32,780
% of consolidated revenues	42.1	41.4	41.7	40.2
Consolidated Revenues (Rs m)	50,873	62,706	72,763	81,622
Standalone Exports (Rs m)	12,195	16,803	19,997	23,882
Standalone Domestic (Rs m)	17,923	20,701	23,185	25,967

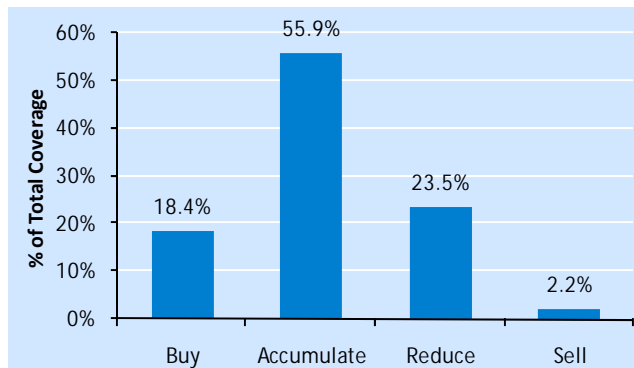
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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