

Bharat Forge Limited (BFL) is a Pune-based Indian multinational corporation. Its work comprises of manufacturing a range of safety components for the automotive and non-automotive sectors. It caters to a number of sectors such as construction and mining, oil and gas, automotive, power, locomotive, and marine and aerospace. Its manufacturing facilities span across India, Germany and Sweden. It produces and sells steel forging products consisting of steel forgings, finished machined crankshafts, front axle assembly and components, and ring rolling. It serves engineering, procurement and commissioning business for power and infrastructure related projects. The company is also engaged in the general engineering and windmill operations. It has six subsidiaries viz; BF-NTPC Energy Systems Limited, BF Infrastructure Limited, Kalyani Strategic Systems Limited, Analogic Controls India Limited, Bharat Forge Scottish Stampings Ltd. and Bharat Forge Holding GmbH.

Key Developments

Operational performance in Q4FY15: During Q4FY15, Bharat Forge reported 31.5% YoY expansion in its standalone revenue to ₹12,238.9 mn, with an EBITDA margin of 29.4% up 460bps YoY. The growth in revenue was supported by 18% YoY spurt in the volumes as compared to Q4FY14. The realisations too improved with the company reporting a 12.1% YoY increase in the per ton realisations at ₹210,900. In line with strong revenue and EBITDA margin growth, the company reported 71%YoY jump in its standalone net profit at ₹2,031.8 mn.

Increased sales from export market drive revenue growth in FY15:

The net-revenue of the company increased by 13.5% and stood at ₹76,247.5 mn in FY15. The increase in the top-line was driven by increased sales from the export market. The company achieved greater hold of the North American Truck market and added new customers in the US and Europe. It also entered into the premium Aerospace Segment with 4 marquee customer contracts. The export industrial business registered 83% growth in revenue reaching at ₹13,233 mn in FY15. The EBITDA of the company registered an increment of ~40% on the back of higher revenue and lower costs. As a result, EBITDA margin of the company rose to 18.9% as against 15% in the previous year.

Growth in export market aided revenues

The export market of the company fared well during FY15. The Americas market showcased extraordinary growth of ~90% YoY. The highest sales growth in this region came from the Class 8 truck production whose volumes grew by ~20%.

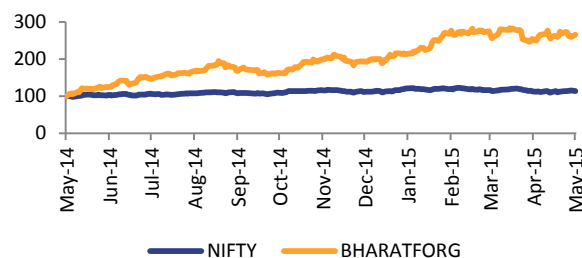
Market Data

CMP (₹)	1,154
Face Value	2.0
52 week H/L (₹)	1,363.0/539.0
Adj. all time High (₹)	1,364.0
Decline from 52WH (%)	15.3
Rise from 52WL (%)	114.0
Beta	1.0
Mkt. Cap (₹bn)	268.7
Enterprise Value (₹bn)	283.3

Fiscal Year Ended

	FY13A	FY14A	FY15A
Net Sales (₹bn)	51.7	67.2	76.2
Net Profit (₹bn)	2.5	5.0	7.6
Share Capital (₹bn)	0.5	0.5	0.5
EPS (₹)	10.6	21.4	32.7
PE (x)	108.9	53.9	35.3
P/BV (x)	11.9	10.0	7.8
ROCE (%)	12.9	17.6	21.1

One year Price Chart



Shareholding	Mar15	Dec14	Diff.
Promoters	46.7	46.7	-
DII	14.0	15.1	(1.1)
FII	17.6	16.6	1.0
Others	21.6	21.5	0.1

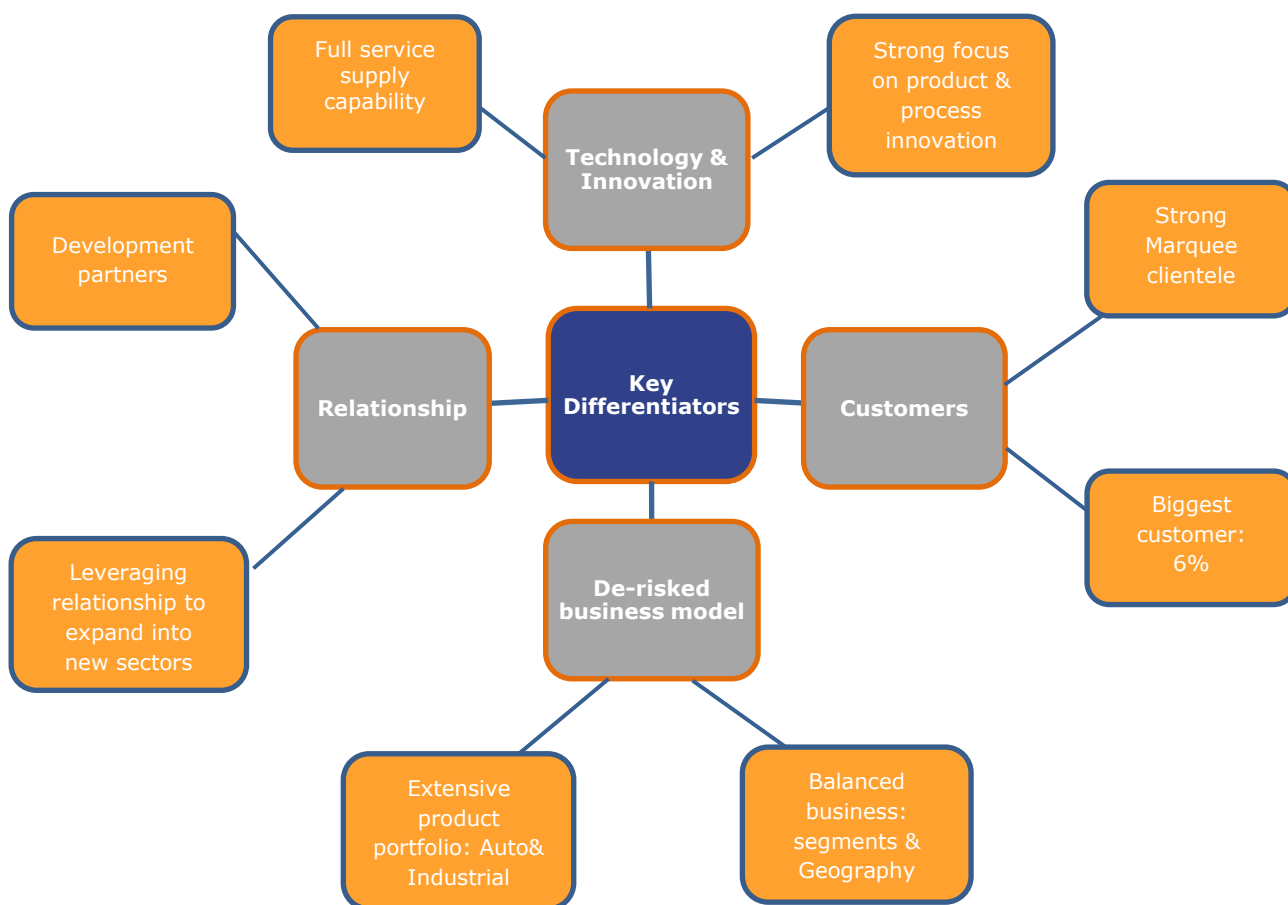
Bharat Forge Limited is a technology driven company with an acumen of manufacturing wide range of high performance, critical & safety components for the automotive & non-automotive sector.

Business Overview

Bharat Forge Limited (BFL), the Pune based Indian multinational is a technology driven global leader in forging sector partaking pancontinental presence across nine manufacturing locations, serving several sectors including automotive, power, oil and gas, construction & mining , locomotive, marine and aerospace.

It is a part of a USD 2.5 billion conglomerate Kalyani Group. BFL possesses the biggest storehouse of metallurgical knowledge in the region and offers full service supply capability to its geographically dispersed marquee customers from concept to product design, engineering, manufacturing, testing and validation. With its manufacturing facilities spread across India, Germany, Sweden and France, Bharat Forge manufactures a wide range of high performance, critical & safety components for the automotive & non-automotive sector. It is India's largest manufacturer and exporter of automotive components and leading chassis component manufacturer in the world. BFL's customer base includes virtually every global automotive backed by several decades of experience in component manufacturing & metallurgy, the company is now looking beyond automotive to expand its presence across several critical business verticals such as oil & gas, power, locomotive & marine, aerospace, metals & mining, construction and general engineering.

BFL~ Key Differentiators

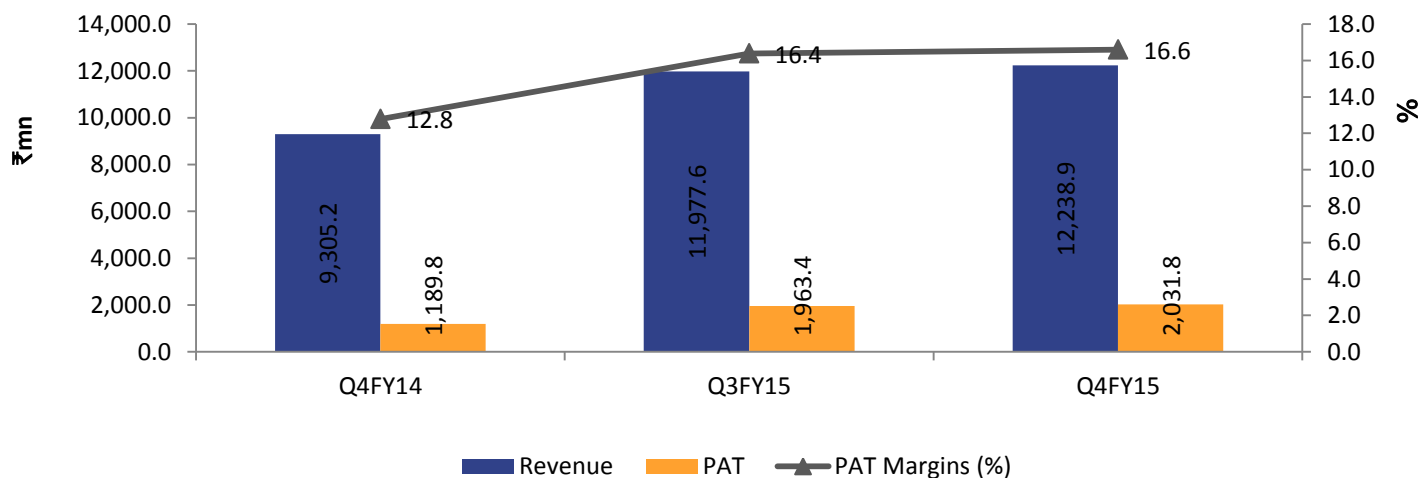


Recorded a growth of 32% YoY in its standalone total revenue at ₹12,239.8 mn in Q4FY15, supported by volume growth in export market.

Reported more than 70% YoY growth in net profit in Q4FY15

During Q4FY15, Bharat Forge reported 71% YoY jump in its standalone net profit at ₹2,031.8 mn. The firm had posted a net profit of ₹1,189.8 mn in the year-ago period. Total standalone income of the firm grew 32% to ₹12,239.8 mn in Q4FY15 from ₹9,305.2 mn in the same quarter of the last financial year. The growth in revenue was supported by 18% YoY spurt in the volumes as compared to Q4FY14. The realisations too improved with the company reporting a 12.1% YoY increase in the per ton realisations at ₹210,900.

Revenue and net profit trend



The company continued to enhance its product offerings in the traditional automotive and the industrial business by developing newer processes and materials supported by its in-house innovation, henceforth aiding the top-line.

Increased sales from export market drive revenue growth in FY15

For the year ended March 2015, the company's performance has been encouraging on many fronts. The company witnessed a decent growth in the top-line; it achieved efficient operating levels, thus reducing the share of operating expenses to the net sales from 84% to 80%. The company continued to enhance its product offerings in the traditional automotive and the industrial business by developing newer processes and materials supported by its in-house innovation, henceforth aiding the top-line.

The net-revenue of the company increased by 13.5% to ₹76,247.5 mn in FY15 largely driven by increased sales from the export market. The company achieved greater hold of the North American Truck market and added new customers in US and Europe. It also entered the premium Aerospace Segment with 4 marquee customer contracts. The export industrial business registered 83% growth in revenue reaching at ₹13,233 mn in FY15.

The EBITDA of the company also registered an increment of ~40% supported by higher revenue and lower costs. The EBITDA margin of the company rose to 18.9% as compared to 15% in the previous year. In line with better operational performance, coupled with lower interest burden and lower depreciation expenses triggered ~53% rise in net profit of the company during the year to ₹7,625.3 mn.

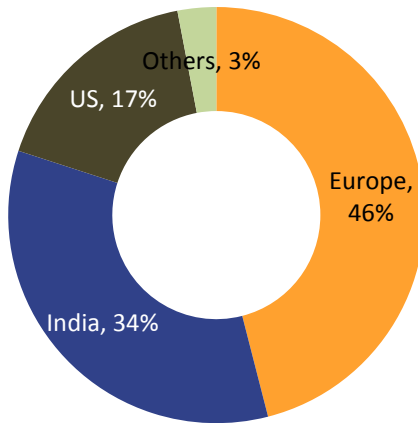
The export market of the company fared well during FY15. The Americas market showcased extraordinary growth. The growth of the US markets can be attributed to strong economic growth translating into better sales opportunities.

Growth in export market aided revenues

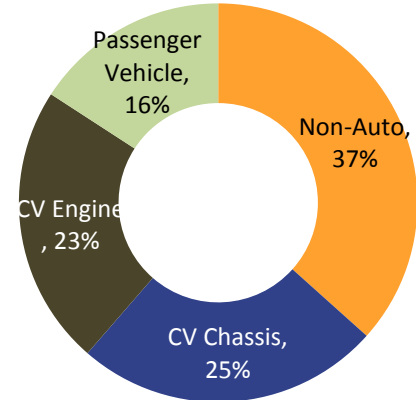
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During the last four months of FY15, orders from Class 8 trucks pushed the order backlog from normal levels of 100,000 units to 190,000 units. Even in Europe, despite increasing effects of the introduction of EURO VI emission on prices, the demand continued to favour the company. The export industrial business registered 83% growth reaching at ₹13,233 mn in FY15 led by surge in the business from the Energy segment due to increasing demand of oil & gas in the wake of declining prices coupled with the greater market attainment at the international level.

Geographical revenue bifurcation

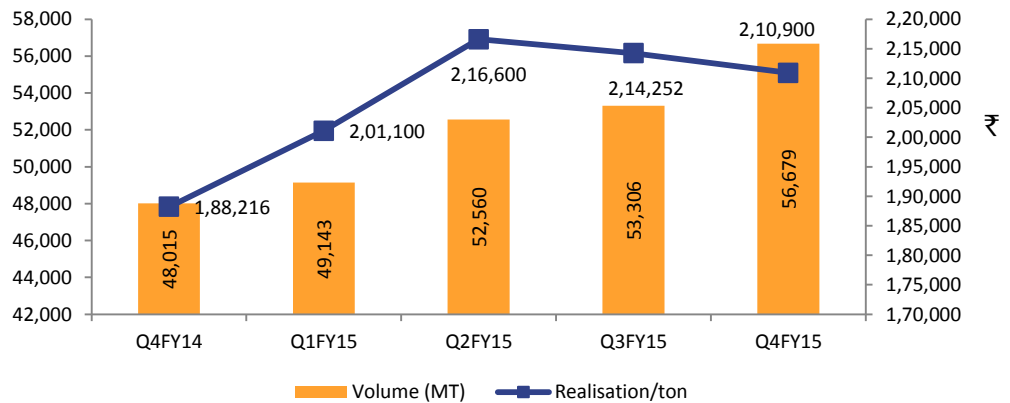


Segmental revenue bifurcation



Recently, the company has further strengthened its position in North America by acquiring one more marquee OEM customer. In Q3FY15, BFL through its European Subsidiary acquired 100% in Mécanique Générale Langroise (MGL). MGL is a strong technology oriented company focused on precision machining and other high value added processes like cladding for critical application in the Oil & Gas industry.

Volume and realisation trend over last five quarters



In order to reduce dependency on the auto sector, BFL continued to explore investing opportunity in creating new capacities for high margin non-automotive segment across globe for new business development.

Recently, Bharat Forge opened an advance manufacturing centre for railways at the Baramati plant for making railway components.

Rising revenue contribution from industrials segment boosts margin

Over the last ten years, BFL has transformed itself from a supplier of auto components to diversified engineering company. In order to reduce dependency on the auto sector, BFL continued to explore investing opportunity in creating new capacities for high margin non-automotive segment across globe for new business development.

The non-auto business has gained considerable strength with the company's renewed focus on oil & gas sector, the Heavy Horse Power Engine segment & equipment used in construction & mining space providing the momentum. For the last three years, the industrial sector has been a major growth driver for BFL, fuelled by a strong product pipeline, new customer acquisition and new products supply for existing customers.

New manufacturing facility for railways opened up in Q4FY15

As part of its diversification strategy, in Q4FY15, Bharat Forge has opened an advance manufacturing centre for railways at the Baramati plant for making railway and components. The new plant will develop critical and sophisticated components and products for the railway sector globally. Initially, the company will be supplying critical components like turbo chargers and locomotive crankshafts for the Indian Railways, marking the first Indian company to supply parts to the Indian Railways. The company's management said that at the initial stage, it will supply 400 locomotive components to the Indian Railways and there are prospects of increasing the count at the later stage. The Baramati facility will also cater to the requirement of the automobile sector and export market by manufacturing of crankshafts.

Focused towards diversification

While Bharat Forge remains the largest exporter of auto components, the gradual diversification into newer business areas over the last 10 years has transformed it into an engineering company. The company now is having a significant presence in the industrial business segment covering energy (power, oil and gas) transportation (locomotive, marine and aerospace), construction and mining (construction, metals and mining, general engineering). The management of the company is benefiting from its focus on new technologies and innovation created through in-house R&D, sweating of assets which resulted in higher productivity and debt reduction.

Balance Sheet (Consolidated)

₹mn	FY13A	FY14A	FY15A
Share Capital	465.7	465.7	465.7
Reserve and surplus	22,098.2	26,366.7	33,976.0
Net Worth	22,563.9	26,832.4	34,441.7
Minority Interest	1,642.5	170.2	0.0
Long term borrowings	18,274.0	15,212.0	19,815.1
Other long term liability	382.8	180.6	595.4
Long-term provisions	1,069.4	1,168.7	1,196.9
Deferred tax assets	1,345.4	1,644.6	1,637.7
Current Liabilities	30,668.9	30,136.6	24,672.3
Total Liabilities	75,946.8	75,345.1	82,359.1
Fixed assets	35,390.1	31,110.1	34,355.9
Good will	32.5	56.8	537.2
Investments	285.1	290.6	388.9
Loans & adv	2,233.3	2,361.3	2,402.5
other asset	374.4	261.8	232.5
Current Assets	37,631.4	41,264.5	44,442.1
Total assets	75,946.8	75,345.1	82,359.1

Cash Flow (Consolidated)

Y/E	FY13A	FY14A
Net profit/loss before extraordinary items and tax	3,917.2	7,287.3
Net cashflow from operating activities	7,575.8	7,168.0
Net cash used in investing activities	(2,102.5)	(1,879.0)
Net cash used from financing activities	(3,513.2)	(6,399.8)
Net inc/dec in cash and cash equivalents	1,747.5	(1,677.2)
Cash and cash equivalents begin of year	2,326.5	4,074.0
Cash and cash equivalents end of year	4,074.0	2,396.8

Financial performance snapshot

BFL registered a decent revenue growth over FY13-15, which grew at a CAGR of ~21.5%. In FY15 alone, the net-revenue of the company increased by 13.5% and stood at ₹76,247.5 mn. The EBITDA of the company registered an increment of ~40% driven by higher revenue and lower costs. The EBITDA margin of the company stood at 18.9% as compared to 15% in the previous year. The PAT of the company increased by ~53% as a result of lower interest burden and lower depreciation expenses. Finally, bottom-line grew by ~53% to ₹7,625.3 mn.

Profit & Loss Account (Consolidated)

(₹mn)	FY13A	FY14A	FY15A
Net sales	51,665.5	67,161.2	76,247.5
Operating expense	43,750.1	56,889.8	61,839.7
EBITDA	7,915.4	10,271.4	14,407.8
Other income	1,120.6	1,249.0	1,367.6
Depreciation	3,195.3	3,578.7	3,624.2
EBIT	5,840.6	7,941.7	12,151.2
Finance cost	1,671.5	1,691.5	1,356.0
Profit before tax	4,169.1	6,250.2	10,795.2
Exceptional item	365.7	1,037.1	427.6
Tax	1,529.2	2,100.2	3,586.9
Minority int	39.1	28.5	(29.8)
Profit/(loss) of associates	2.0	0.0	0.0
Profit/(loss) from discontinued operations	(570.9)	(230.2)	(40.4)
Net Profit	2,475.8	4,985.3	7,625.3

Key Ratios (Consolidated)

	FY13A	FY14A	FY15A
EBITDA Margin (%)	15.3	15.3	18.9
EBIT Margin (%)	11.3	11.8	15.9
NPM (%)	4.7	7.3	9.8
ROCE (%)	12.9	17.6	21.1
ROE (%)	11.0	18.6	22.1
EPS (₹)	10.6	21.4	32.7
P/E (x)	108.9	53.9	35.3
BVPS(₹)	96.9	115.2	147.9
P/BVPS (x)	11.9	10.0	7.8
EV/Sales (x)	5.5	4.2	3.7
EV/EBITDA (x)	35.8	27.6	19.7



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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