

February 10, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	481		479	
Sales (Rs. m)	102,863	114,599	112,722	121,819
% Chng.	(8.7)	(5.9)		
EBITDA (Rs. m)	20,037	23,180	22,597	24,831
% Chng.	(11.3)	(6.7)		
EPS (Rs.)	21.5	27.5	23.6	28.1
% Chng.	(8.8)	(2.1)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	101,457	90,248	102,863	114,599
EBITDA (Rs. m)	20,556	15,641	20,037	23,180
Margin (%)	20.3	17.3	19.5	20.2
PAT (Rs. m)	10,322	7,474	10,032	12,789
EPS (Rs.)	22.2	16.1	21.5	27.5
Gr. (%)	25.5	(27.6)	34.2	27.5
DPS (Rs.)	5.0	6.2	6.2	6.2
Yield (%)	1.0	1.3	1.3	1.3
RoE (%)	20.6	13.5	16.5	18.6
RoCE (%)	18.0	10.9	14.6	16.6
EV/Sales (x)	2.6	2.9	2.5	2.2
EV/EBITDA (x)	12.9	16.7	12.9	10.9
PE (x)	22.5	31.1	23.2	18.2
P/BV (x)	4.3	4.0	3.6	3.2

Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.548 / Rs.376
Sensex / Nifty	40,980 / 12,032
Market Cap	Rs.232bn / \$ 3,258m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.1511.84m

Shareholding Pattern (%)

Promoter's	45.76
Foreign	20.49
Domestic Institution	15.23
Public & Others	18.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	16.5	3.0
Relative	(1.2)	6.9	(8.1)

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Weak results; growth guidance positive for FY21

Quick Pointers:

- The management sounded positive for FY21 demand while it expect 4QFY20 to be stable QoQ.
- Weak product mix drag EBITDA margins to 26 quarter low at 21.9%.

BHFC's 3QFY20 performance were weak with margins at 26 quarter low at 21.9% (PLe 26%). While the management plans to neutralize the impact of current OEM production decline by way of a) increased focus on PV segment and b) expected recovery in exports from 2HFY21 led by addition of new clients/products. These along with commissioning of its Baramati, Nelor and other capacity, should also help BHFC. We cut FY21/22 consol EPS estimates by 8%/2% and maintain Hold with a target price of Rs481 (earlier Rs479), based on 18x roll forwarded to Mar'22E Consolidated EPS.

Decline in all segments except PV exports impacted sales: Revenues declined 36.4% YoY/-14.5% QoQ to Rs10.8bn (PLe Rs12.6b), wherein shipment tonnage declined ~30% YoY/-12% QoQ, while net realizations declined 9.6% YoY/ -2.6% QoQ on account of weak revenue mix. In domestic segment, PV revenue remained flat while CV and industrial's revenue declined by ~59% and ~28% YoY respectively. In exports, PV segment grew by ~15% YoY while CV and industrial's revenue de-grew by ~29% and ~51% respectively.

EBITDA margins at 26 quarter low at 21.9%: EBITDA fell 52% YoY/-26% QoQ to Rs2.4b (PLe Rs3.3b). Weak product mix and operating deleverage drag EBITDA margins to 26 quarter low at 21.9%, down 690bps YoY (PLe: 26%). Adjusted PAT for the quarter declined by ~60% YoY at Rs1.2bn (PLe: Rs2b) as higher interest cost at Rs0.4b (PLe Rs0.3b) was offset by lower tax at ~19% (PLe 27%).

Key con-call takeaways: (1) Expect Q4FY20 to remain stable while **growth to come back from FY21** led by recovery in PV, CV and industrial segment. **(2)** Addition of new products and 2 new clients to drive **growth in exports in H2FY21**. **(3)** Expect truck production to be controlled in Q4 as there's still **inventory of 18-19k trucks** in the market. (4) Capacity utilization at ~50% and provided **capex guidance of Rs350cr** for FY21. (5) **Developed EV capabilities** for power, converters and control electronics to supply high end electronics for cranes. **Expect content/vehicle in EVs to improve** significantly. (6) Significant tie-up in aluminium forging to bring in business of worth ~USD3mn per year. (7) Nellore plant has **received order from PV segment** while billing will start from February.

Exhibit 1: Q3FY20 Result Overview (Rs m) - Standalone

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Net Revenues	10,767	16,925	(36.4)	12,595	36,827	48,514	(24.1)
Raw Materials	4,201	6,234	(32.6)	5,057	14,240	18,141	(21.5)
<i>% of Net Sales</i>	<i>39.0</i>	<i>36.8</i>		<i>40.1</i>	<i>38.7</i>	<i>37.4</i>	
Personnel	1,179	1,223	(3.5)	1,217	3,635	3,670	(1.0)
<i>% of Net Sales</i>	<i>11.0</i>	<i>7.2</i>		<i>9.7</i>	<i>9.9</i>	<i>7.6</i>	
Manufacturing & Other Exp	3,031	4,599	(34.1)	3,119	9,876	12,791	(22.8)
<i>% of Net Sales</i>	<i>28.2</i>	<i>27.2</i>		<i>24.8</i>	<i>26.8</i>	<i>26.4</i>	
Total Expenditure	8,411	12,056	(30.2)	9,393	27,751	34,603	(19.8)
EBITDA	2,356	4,869	(51.6)	3,201	9,076	13,911	(34.8)
<i>EBITDA Margin (%)</i>	<i>21.9</i>	<i>28.8</i>		<i>25.4</i>	<i>24.6</i>	<i>28.7</i>	
Depreciation	823	907	(9.3)	893	2,602	2,645	(1.6)
EBIT	1,533	3,963	(61.3)	2,308	6,474	11,266	(42.5)
Interest Expenses	356	136	162.6	291	1,035	709	46.0
Non-operating income	398	478	(16.9)	495	1,294	1,159	11.7
Extraordinary Expenses	(38)	389		197	135	(23)	
PBT	1,537	4,694	(67.3)	2,709	6,868	11,693	(41.3)
Tax-Total	297	1,596	(81.4)	63	1,241	3,975	(68.8)
<i>Tax Rate (%) - Total</i>	<i>19.3</i>	<i>34.0</i>	<i>(43.2)</i>	<i>2.3</i>	<i>18.1</i>	<i>34.0</i>	<i>(46.9)</i>
Reported PAT	1,240	3,098	(60.0)	2,646	5,627	7,717	(27.1)
Adj. PAT	1,240	3,098	(60.0)	2,646	5,627	7,717	(27.1)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Volume (MT)	46,998	66,764	(29.6)	53,541	161,413	203,262	(20.6)
Realisation / ton (Rs)	242,288	253,508	(4.4)	235,231	228,154	238,676	(4.4)
Gross Profit / ton (Rs)	139,709	160,135	(12.8)	140,787	139,931	149,426	(6.4)
Staff Cost / ton (Rs)	25,091	18,312	37.0	22,738	22,517	18,058	24.7
Other Mfg cost / ton (Rs)	64,495	68,890	(6.4)	58,260	61,185	62,929	(2.8)
EBITDA / ton (Rs)	50,123	72,933	(31.3)	59,789	56,230	68,440	(17.8)
Adj. Profit / ton (Rs)	26,389	46,401	(43.1)	49,414	34,862	37,968	(8.2)
Domestic / Export Mix							
Domestic sales	4,079	6,739	(39.5)	4,480	14,116	19,691	(28.3)
<i>% of net sales</i>	<i>39.1</i>	<i>40.9</i>		<i>36.7</i>	<i>38.3</i>	<i>40.6</i>	
Exports	6,353	9,755	(34.9)	7,725	21,605	27,632	(21.8)
<i>% of net sales</i>	<i>60.9</i>	<i>59.1</i>		<i>63.3</i>	<i>58.7</i>	<i>57.0</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	101,457	90,248	102,863	114,599
YoY gr. (%)	21.4	(11.0)	14.0	11.4
Cost of Goods Sold	42,143	51,158	57,397	63,028
Gross Profit	59,314	39,089	45,466	51,572
Margin (%)	58.5	43.3	44.2	45.0
Employee Cost	12,463	-	-	-
Other Expenses	26,295	23,448	25,429	28,392
EBITDA	20,556	15,641	20,037	23,180
YoY gr. (%)	19.3	(23.9)	28.1	15.7
Margin (%)	20.3	17.3	19.5	20.2
Depreciation and Amortization	5,208	5,589	6,062	6,313
EBIT	15,348	10,052	13,976	16,867
Margin (%)	15.1	11.1	13.6	14.7
Net Interest	1,272	1,785	2,724	2,701
Other Income	2,028	2,287	2,409	3,223
Profit Before Tax	16,104	10,553	13,661	17,389
Margin (%)	15.9	11.7	13.3	15.2
Total Tax	5,664	3,075	3,626	4,596
Effective tax rate (%)	35.2	29.1	26.5	26.4
Profit after tax	10,440	7,478	10,036	12,793
Minority interest	118	4	4	4
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,322	7,474	10,032	12,789
YoY gr. (%)	25.5	(27.6)	34.2	27.5
Margin (%)	10.2	8.3	9.8	11.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,322	7,474	10,032	12,789
YoY gr. (%)	35.4	(27.6)	34.2	27.5
Margin (%)	10.2	8.3	9.8	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,322	7,474	10,032	12,789
Equity Shares O/s (m)	466	466	466	466
EPS (Rs)	22.2	16.1	21.5	27.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	86,671	101,978	106,978	110,978
Tangibles	86,671	101,978	106,978	110,978
Intangibles	-	-	-	-
Acc: Dep / Amortization	50,425	56,014	62,076	68,389
Tangibles	50,425	56,014	62,076	68,389
Intangibles	-	-	-	-
Net fixed assets	36,246	45,964	44,902	42,589
Tangibles	36,246	45,964	44,902	42,589
Intangibles	-	-	-	-
Capital Work In Progress	8,307	1,000	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	15,237	17,237	19,237	21,237
Net Deferred tax assets	(2,062)	(2,062)	(2,062)	(2,062)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	18,447	14,835	16,909	18,838
Trade receivables	21,478	20,275	23,109	25,746
Cash & Bank Balance	4,755	7,052	7,254	11,701
Other Current Assets	-	-	-	-
Total Assets	115,783	117,983	125,656	135,867
Equity				
Equity Share Capital	931	931	931	931
Other Equity	52,529	56,505	63,039	72,330
Total Networth	53,461	57,437	63,970	73,261
Non-Current Liabilities				
Long Term borrowings	37,728	35,728	33,728	31,728
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	13,664	14,835	16,909	18,838
Other current liabilities	8,569	7,622	8,687	9,678
Total Equity & Liabilities	115,783	117,983	125,656	135,867

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	16,104	10,052	13,976	16,867
Add. Depreciation	5,208	5,589	6,062	6,313
Add. Interest	52	2,283	2,405	3,219
Less Financial Other Income	2,028	2,287	2,409	3,223
Add. Other	-	-	-	-
Op. profit before WC changes	21,364	17,924	22,442	26,399
Net Changes-WC	(6,747)	4,732	(3,393)	(3,157)
Direct tax	(5,502)	(3,075)	(3,626)	(4,596)
Net cash from Op. activities	9,115	19,581	15,424	18,646
Capital expenditures	(11,318)	(8,000)	(5,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	(433)	(2,000)	(2,000)	(2,000)
Net Cash from Inv. activities	(11,751)	(10,000)	(7,000)	(6,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	7,521	(2,000)	(2,000)	(2,000)
Dividend paid	(2,806)	(3,498)	(3,498)	(3,498)
Interest paid	(1,038)	(1,785)	(2,724)	(2,701)
Others	-	-	-	-
Net cash from Fin. activities	3,676	(7,283)	(8,222)	(8,199)
Net change in cash	1,040	2,297	202	4,447
Free Cash Flow	(2,203)	11,581	10,424	14,646

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	16,686	13,466	12,595	10,767
YoY gr. (%)	13.8	(9.0)	(25.0)	(36.4)
Raw Material Expenses	6,216	4,983	5,057	4,201
Gross Profit	10,470	8,483	7,538	6,566
Margin (%)	62.7	63.0	59.9	61.0
EBITDA	4,849	3,519	3,201	2,356
YoY gr. (%)	21.9	(17.9)	(32.7)	(51.6)
Margin (%)	29.1	26.1	25.4	21.9
Depreciation / Depletion	821	886	893	823
EBIT	4,028	2,633	2,308	1,533
Margin (%)	24.1	19.6	18.3	14.2
Net Interest	315	388	291	356
Other Income	825	377	692	360
Profit before Tax	4,538	2,622	2,709	1,537
Margin (%)	27.2	19.5	21.5	14.3
Total Tax	1,543	881	63	297
Effective tax rate (%)	34.0	33.6	2.3	19.3
Profit after Tax	2,995	1,741	2,646	1,240
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,995	1,741	2,646	1,240
YoY gr. (%)	85.3	(25.7)	16.3	(60.0)
Margin (%)	17.9	12.9	21.0	11.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,995	1,741	2,646	1,240
YoY gr. (%)	198.5	(25.7)	16.3	(60.0)
Margin (%)	17.9	12.9	21.0	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,995	1,741	2,646	1,240
Avg. Shares O/s (m)	466	466	466	466
EPS (Rs)	6.4	3.7	5.7	2.7

Source: Company Data, PL Research

Key Financial Metrics

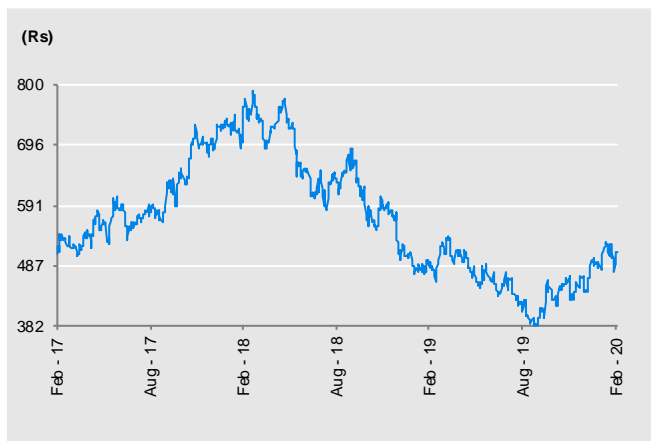
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	22.2	16.1	21.5	27.5
CEPS	33.4	28.1	34.6	41.0
BVPS	114.8	123.3	137.4	157.3
FCF	(4.7)	24.9	22.4	31.5
DPS	5.0	6.2	6.2	6.2
Return Ratio(%)				
RoCE	18.0	10.9	14.6	16.6
ROIC	12.4	8.4	11.6	13.8
RoE	20.6	13.5	16.5	18.6
Balance Sheet				
Net Debt : Equity (x)	0.6	0.5	0.4	0.3
Net Working Capital (Days)	94	82	82	82
Valuation(x)				
PER	22.5	31.1	23.2	18.2
P/B	4.3	4.0	3.6	3.2
P/CEPS	15.0	17.8	14.4	12.2
EV/EBITDA	12.9	16.7	12.9	10.9
EV/Sales	2.6	2.9	2.5	2.2
Dividend Yield (%)	1.0	1.3	1.3	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Shipment Tonnage (tons)	265,952	212,762	255,314	268,080
Realisation (Rs/ton)	245,157	244,060	242,557	270,073

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	479	487
2	9-Nov-19	Hold	453	426
3	11-Oct-19	Hold	430	424
4	3-Oct-19	Hold	430	441
5	13-Aug-19	BUY	430	401
6	4-Jul-19	Hold	513	476
7	20-May-19	Hold	513	486
8	5-Apr-19	Hold	504	512
9	14-Feb-19	Hold	504	478

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	80	84
2	Bajaj Auto	Reduce	2,969	3,142
3	Bharat Forge	Hold	479	487
4	CEAT	Sell	910	1,014
5	Eicher Motors	Hold	20,681	20,391
6	Exide Industries	Accumulate	214	188
7	Hero Motocorp	Accumulate	2,769	2,411
8	Mahindra & Mahindra	Hold	593	533
9	Maruti Suzuki	BUY	8,083	6,997
10	Motherson Sumi Systems	Accumulate	162	148
11	Tata Motors	Hold	185	186
12	TVS Motors	Hold	473	460

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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