

November 11, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	439		446	
Sales (Rs. m)	92,866	1,06,398	93,788	1,03,696
% Chng.	(1.0)	2.6		
EBITDA (Rs. m)	15,452	19,205	16,544	19,386
% Chng.	(6.6)	(0.9)		
EPS (Rs.)	20.2	25.2	21.5	25.4
% Chng.	(5.9)	(0.8)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	80,558	70,108	92,866	1,06,398
EBITDA (Rs. m)	11,147	7,870	15,452	19,205
Margin (%)	13.8	11.2	16.6	18.0
PAT (Rs. m)	4,106	2,394	9,421	11,744
EPS (Rs.)	8.8	5.1	20.2	25.2
Gr. (%)	(60.2)	(41.7)	293.4	24.7
DPS (Rs.)	2.0	2.5	3.0	4.0
Yield (%)	0.4	0.5	0.6	0.8
RoE (%)	7.8	4.5	16.4	17.7
RoCE (%)	6.2	2.7	11.6	14.1
EV/Sales (x)	3.3	3.8	2.8	2.5
EV/EBITDA (x)	24.0	33.9	17.1	13.6
PE (x)	56.7	97.2	24.7	19.8
P/BV (x)	4.5	4.4	3.8	3.3

Key Data

BFRG.BO | BHFC IN

52-W High / Low	Rs.540 / Rs.208
Sensex / Nifty	43,594 / 12,749
Market Cap	Rs.233bn/ \$ 3,128m
Shares Outstanding	466m
3M Avg. Daily Value	Rs.3147.16m

Shareholding Pattern (%)

Promoter's	46.04
Foreign	21.91
Domestic Institution	11.52
Public & Others	20.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	74.4	14.6
Relative	(0.3)	26.3	6.1

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Auto segment outlook stable, non-auto weak

Quick Pointers:

- Demand outlook mixed with auto segment (both domestic and export) recovery. While industrial led by Oil & Gas to remain weak.
- Consol capex guidance at Rs4.5bn for FY21. Expect no major capex in 2H.

BHFC's 2QFY21 performance was weak led by tonnage decline of ~24% YoY to 40.8k (PLe 44.6k). The sharp decline in volumes was led by ~33%/44% YoY exports decline in industrial/auto segments (~52% of SA revenues). While there has been some initial pickup in class 8 trucks (~19% of S/A revenues) along with ramp-up in PVs, the outlook for industrial remain weak with no major improvement in global Oil & Gas, aerospace segments. On the other hand, domestic auto/industrial segments performed well with +1%/-6% YoY.

We believe that BHFC is much better placed than previous cycles with new products/customer additions both in auto/non-auto segments. However, the same is well captured in recent valuations expansions at 25x/20x FY22/23 consol EPS. Hence we continue to maintain Hold with a revised target price of Rs439 (earlier Rs446) at 19x Sep-20 EPS. We cut FY21/22/23 EPS by ~16%/6%/1% to factor in lower volumes especially in non-auto division.

BHFC Q2FY21 revenue misses estimate at Rs8.8bn (-30% YoY, PLe Rs11.1bn) led by ~24% YoY/ ~8% YoY decline in tonnage and realization respectively. Domestic/exports revenues fell ~10%/40% YoY. Overall revenue from auto segment declined by ~33% YoY while non-auto segment declined by ~21% YoY.

Lower revenue and high other expenses dragged EBITDA- Gross margins expanded 380bp YoY at 63.7% (PLe 58.5%). However, this was offset by higher other expense at Rs2.9bn (PLe Rs2.7bn, -14% YoY). Lower revenues and higher other expense led to EBITDA miss at Rs1.7bn (-44.7% YoY, PLe Rs2.5bn). Consequently, margins too came in lower at 18.8% (-510bp YoY, PLe 22.5%). Adj PAT came in at Rs0.72bn (-70.4% YoY, PLe Rs1.3bn) led by weak EBITDA.

Key con-call takeaways: (1) Outlook domestic- Overall demand outlook uncertain. Pickup in domestic CV segment visible while anticipate PV segment to grow in the coming period. **(2) Outlook exports-** Expect 2H to remain uncertain led by recovery in auto segment, while oil & gas will continue to remain weak. Class 8 truck demand stable and believe US market to stabilize as elections are over. **(3) See growth potential in wind energy business** (Rs0.5bn revenues) with target to grow by 3-4x in near term. **(4) Won new businesses in domestic PV segment** with new players while most of them are expected to ramp up in FY23/24. Gained some market share in CV segment. **(5) Consol Capex guidance for FY21 at Rs4.5bn.** Expect no major capex in S/A in 2HFY21.

Exhibit 1: Q2FY21 Result Overview (Rs m) - Standalone

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Revenues	8,815	12,595	(30.0)	4,270	13,084	26,060	(49.8)
Raw Materials	3,204	5,057	(36.6)	1,844	5,048	10,040	(49.7)
<i>% of Net Sales</i>	<i>36.3</i>	<i>40.1</i>		<i>43.2</i>	<i>38.6</i>	<i>38.5</i>	
Personnel	1,108	1,217	(9.0)	1,138	2,246	2,455	(8.5)
<i>% of Net Sales</i>	<i>12.6</i>	<i>9.7</i>		<i>26.6</i>	<i>17.2</i>	<i>9.4</i>	
Manufacturing & Other Exp	2,843	3,316	(14.3)	1,270	4,113	7,042	(41.6)
<i>% of Net Sales</i>	<i>32.3</i>	<i>26.3</i>		<i>29.8</i>	<i>31.4</i>	<i>27.0</i>	
Total Expenditure	7,155	9,590	(25.4)	4,252	11,407	19,537	(41.6)
EBITDA	1,660	3,004	(44.7)	17	1,677	6,524	(74.3)
<i>EBITDA Margin (%)</i>	<i>18.8</i>	<i>23.9</i>		<i>0.4</i>	<i>12.8</i>	<i>25.0</i>	
Depreciation	883	893	(1.2)	808	1,691	1,779	(5.0)
EBIT	777	2,111	(63.2)	-791	-14	4,744	(100.3)
Interest Expenses	75	291	(74.2)	299	374	679	(44.9)
Non-operating income	313	495	(36.8)	420	733	896	(18.2)
Extraordinary Expenses	-123	197		-46	-169	173	
PBT	892	2,512	(64.5)	-716	175	5,134	(96.6)
Tax-Total	189	63	199.4	-153	36	944	(96.2)
<i>Tax Rate (%) - Total</i>	<i>21.2</i>	<i>2.5</i>	<i>743.6</i>	<i>21.4</i>	<i>20.6</i>	<i>18.4</i>	<i>11.8</i>
Reported PAT	702	2,449	(71.3)	-563	139	4,190	(96.7)
Adj. PAT	725	2,449	(70.4)	-563	162	4,190	(96.1)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Volume (MT)	40,775	53,541	(23.8)	17,840	58,615	1,14,415	(48.8)
Realisation / ton (Rs)	2,16,178	2,35,231	(8.1)	2,39,333	2,23,225	2,27,769	(2.0)
Gross Profit / ton (Rs)	1,37,603	1,40,787	(2.3)	1,35,950	1,37,100	1,40,022	(2.1)
Staff Cost / ton (Rs)	27,175	22,738	19.5	63,779	38,316	21,459	78.6
Other Mfg cost / ton (Rs)	69,721	61,940	12.6	71,202	70,171	61,547	14.0
EBITDA / ton (Rs)	40,707	56,110	(27.5)	969	28,612	57,016	(49.8)
Adj. Profit / ton (Rs)	17,790	45,735	(61.1)	-31,563	2,769	36,621	(92.4)
Domestic / Export Mix							
Domestic sales	4,036	4,480	(9.9)	1,541	16,235	17,818	(8.9)
<i>% of net sales</i>	<i>46.6</i>	<i>36.7</i>		<i>37.3</i>	<i>124.1</i>	<i>68.4</i>	
Exports	4,623	7,725	(40.2)	2,592	19,836	26,475	(25.1)
<i>% of net sales</i>	<i>53.4</i>	<i>63.3</i>		<i>62.7</i>	<i>151.6</i>	<i>101.6</i>	

Source: Company, PL

Exhibit 3: Segmental Breakup (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	QoQ gr. (%)
Auto Domestic					
CV	916	935	(2.0)	330	177.6
PV	616	576	6.9	76	710.5
Auto Exports					
CV	1,648	3,450	(52.2)	822	100.5
PV	1,188	1,602	(25.8)	572	107.7
Non- Auto Domestic					
Non-Auto Domestic	2,119	2,249	(5.8)	1,020	107.7
Non-Auto Exports					
Non-Auto Exports	1,787	2,673	(33.1)	1,198	49.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	80,558	70,108	92,866	1,06,398
YoY gr. (%)	(20.6)	(13.0)	32.5	14.6
Total Expenses	69,411	62,238	77,414	87,194
% Revenues	86.2	88.8	83.4	82.0
EBITDA	11,147	7,870	15,452	19,205
YoY gr. (%)	(45.8)	(29.4)	96.3	24.3
Margin (%)	13.8	11.2	16.6	18.0
Depreciation and Amortization	5,477	5,328	4,441	4,804
EBIT	5,670	2,541	11,011	14,401
Margin (%)	7.0	3.6	11.9	13.5
Net Interest	1,713	812	759	736
Other Income	1,879	2,409	2,613	2,817
Profit Before Tax	5,046	4,139	12,865	16,481
Margin (%)	6.3	5.9	13.9	15.5
Total Tax	1,125	1,744	3,444	4,738
Effective tax rate (%)	22.3	42.1	26.8	28.7
Profit after tax	3,921	2,394	9,421	11,744
Minority interest	429	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,106	2,394	9,421	11,744
YoY gr. (%)	(60.2)	(41.7)	293.4	24.7
Margin (%)	5.1	3.4	10.1	11.0
Extra Ord. Income / (Exp)	(613)	-	-	-
Reported PAT	3,492	2,394	9,421	11,744
YoY gr. (%)	(66.2)	(31.4)	293.4	24.7
Margin (%)	4.3	3.4	10.1	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,492	2,394	9,421	11,744
Equity Shares O/s (m)	466	466	466	466
EPS (Rs)	8.8	5.1	20.2	25.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	64,017	78,944	82,444	85,944
Tangibles	64,017	78,944	82,444	85,944
Intangibles	-	-	-	-
Acc: Dep / Amortization	24,000	29,328	33,769	38,573
Tangibles	24,000	29,328	33,769	38,573
Intangibles	-	-	-	-
Net fixed assets	40,017	49,615	48,674	47,370
Tangibles	40,017	49,615	48,674	47,370
Intangibles	-	-	-	-
Capital Work In Progress	11,427	1,000	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	16,182	18,182	20,182	22,182
Net Deferred tax assets	(507)	(507)	(507)	(507)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	17,347	14,406	20,354	23,320
Trade receivables	14,938	13,061	15,266	17,490
Cash & Bank Balance	5,751	4,772	5,494	6,344
Other Current Assets	-	-	-	-
Total Assets	1,14,823	1,11,025	1,24,200	1,35,780
Equity				
Equity Share Capital	931	931	931	931
Other Equity	51,266	52,497	60,520	70,402
Total Networkth	52,197	53,428	61,452	71,333
Non-Current Liabilities				
Long Term borrowings	40,735	38,735	36,735	34,735
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	10,309	8,643	12,721	14,575
Other current liabilities	10,755	9,360	12,398	14,205
Total Equity & Liabilities	1,14,823	1,11,025	1,24,200	1,35,780

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	5,046	2,541	11,011	14,401
Add. Depreciation	5,477	5,328	4,441	4,804
Add. Interest	3,209	2,441	2,648	2,855
Less Financial Other Income	1,879	2,409	2,613	2,817
Add. Other	(789)	-	-	-
Op. profit before WC changes	12,943	10,311	18,100	22,060
Net Changes-WC	4,607	930	(4,279)	(6,373)
Direct tax	(2,331)	(1,744)	(3,444)	(4,738)
Net cash from Op. activities	15,220	9,497	10,377	10,949
Capital expenditures	(9,571)	(4,500)	(3,500)	(3,500)
Interest / Dividend Income	-	-	-	-
Others	(1,751)	(2,000)	(2,000)	(2,000)
Net Cash from Invt. activities	(11,322)	(6,500)	(5,500)	(5,500)
Issue of share cap. / premium	30	-	-	-
Debt changes	1,169	(2,000)	(2,000)	(2,000)
Dividend paid	(3,335)	(1,164)	(1,397)	(1,863)
Interest paid	(1,678)	(812)	(759)	(736)
Others	-	-	-	-
Net cash from Fin. activities	(3,814)	(3,976)	(4,155)	(4,598)
Net change in cash	83	(979)	722	850
Free Cash Flow	5,648	4,997	6,877	7,449

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	10,767	8,812	4,270	8,815
YoY gr. (%)	(36.4)	(47.2)	(68.3)	(30.0)
Raw Material Expenses	4,201	3,249	1,844	3,204
Gross Profit	6,566	5,563	2,425	5,611
Margin (%)	61.0	63.1	56.8	63.7
EBITDA	2,394	1,482	17	1,660
YoY gr. (%)	(50.8)	(69.4)	(99.5)	(44.7)
Margin (%)	22.2	16.8	0.4	18.8
Depreciation / Depletion	823	847	808	883
EBIT	1,571	635	(791)	777
Margin (%)	14.6	7.2	(18.5)	8.8
Net Interest	356	415	299	75
Other Income	360	(64)	374	219
Profit before Tax	1,575	(783)	(716)	892
Margin (%)	14.6	(8.9)	(16.8)	10.1
Total Tax	297	(50)	(153)	189
Effective tax rate (%)	18.8	6.4	21.4	21.2
Profit after Tax	1,278	(733)	(563)	702
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,278	146	(563)	725
YoY gr. (%)	(58.7)	(95.1)	(132.3)	(70.4)
Margin (%)	11.9	1.7	(13.2)	8.2
Extra Ord. Income / (Exp)	-	(879)	-	(23)
Reported PAT	1,278	(733)	(563)	702
YoY gr. (%)	(58.7)	(124.5)	(132.3)	(71.3)
Margin (%)	11.9	(8.3)	(13.2)	8.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,278	(733)	(563)	702
Avg. Shares O/s (m)	466	466	466	466
EPS (Rs)	2.7	0.3	(1.2)	1.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	8.8	5.1	20.2	25.2
CEPS	20.6	16.6	29.8	35.5
BVPS	112.1	114.7	132.0	153.2
FCF	12.1	10.7	14.8	16.0
DPS	2.0	2.5	3.0	4.0
Return Ratio(%)				
RoCE	6.2	2.7	11.6	14.1
ROIC	5.1	1.7	9.0	10.7
RoE	7.8	4.5	16.4	17.7
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.5	0.4
Net Working Capital (Days)	100	98	90	90
Valuation(x)				
PER	56.7	97.2	24.7	19.8
P/B	4.5	4.4	3.8	3.3
P/CEPS	24.3	30.1	16.8	14.1
EV/EBITDA	24.0	33.9	17.1	13.6
EV/Sales	3.3	3.8	2.8	2.5
Dividend Yield (%)	0.4	0.5	0.6	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Shipment Tonnage (tons)	2,01,586	1,61,269	1,85,459	2,13,278
Realisation (Rs/ton)	2,26,399	2,28,964	2,60,888	2,91,060

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	Hold	446	466
2	12-Aug-20	Hold	401	436
3	11-Jul-20	Hold	347	355
4	29-Jun-20	Hold	330	317
5	09-Apr-20	Hold	345	246
6	10-Feb-20	Hold	481	499
7	03-Jan-20	Hold	479	487

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	194	162
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	728	620
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	147	127
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

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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